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ELEMENTS OF BUSINESS

BY

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ELEMENTS OF BUSINESS

W. P. 5

PREFACE

MUCH is heard on all sides to-day of efficiency — efficiency in affairs of government, in business, in the professions; efficiency, indeed, in all our public and commercial relationships. At the same time much is being done through special forms of education and of training to improve the quality of the service everywhere. Is it not strange, then, that in this nation-wide campaign for higher standards and better methods, we quite overlook the source of the trouble, or, if we recognize it, make little or no effort to remove it?

If we, as a people, are inefficient in the administration of public affairs, of commercial enterprises, or of professional interests, is it not because we are primarily inefficient in the management of our own personal and family matters? All about us we see the failure of men and women to make progress in mercantile or in professional enterprises, just because they do not understand the elementary principles underlying all business relationships.

Likewise in the home we are witnesses continually to the futile efforts of people to make ends meet, because through positive lack of knowledge on the subject they are employing the most wasteful methods in the administration of the family budget. Here lies the key to the whole problem. If we set about systematically to inform and to train the young people of this day in sound methods of personal finance, we shall at the same time be preparing them in the best manner possible for an economical use of their powers

and resources in the larger and more responsible positions of later life.

Permeating all our secondary school courses to-day is the idea of the application of the instruction to the life needs of the pupils, — first to their vocational requirements, and, second, to the larger question of successful living. Why is it that so many schools, no matter how many specialized courses they may offer, require that every boy shall take a minimum of training in the manual arts and that every girl shall take a minimum of training in the household arts? Because, much as the vocational idea may differentiate people in their studies and in their wage-earning activities, there are certain duties in life common to all, for the proper discharge of which an elementary knowledge of these homely arts is indispensable.

Why should we not insist similarly on a certain minimum study, somewhere in the school career of every boy and girl, of the elements of business as a necessity for success in every field? However skilled a man may be in science or in art, if at the same time he is ignorant of everyday business routine, he is at the mercy of unscrupulous people with whom he may deal. Or, however skilled a woman may be in the domestic arts, if she does not know the best methods of buying, saving, and investing, she is seriously handicapped. These are matters touching the lives of all, and they are of such vital import in the stress of mere living that they should find a place in the educational program of every school.

As a contribution to this important field of study, the authors offer the following chapters on business methods essential to successful living.

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PART I

EXCHANGE, MONEY, AND CREDIT

I. GENERAL PRINCIPLES

BUSINESS exchange is the peaceful process of satisfying human wants. The business community, with its complex methods and its numerous institutions, is the organized means of affording the facilities necessary to carry on this exchange in a convenient and orderly way. At the beginning of a study of the elements of business, it will be helpful to glance briefly at the character of the business community and at the nature of some of the principal factors underlying it.

Barter. Under primitive conditions business exchange presented itself in the form of two men engaged in trading objects, each giving something he did not want for something he did want. With the development and the expansion of business relationships, however, this simple method of exchange, known as **barter**, became cumbersome and therefore unsatisfactory. So, in our day, while in fact men are still bartering or trading objects to satisfy their wants, the process of exchange is so concealed by the improved means and methods used to effect it that the persons concerned do not realize that bartering or trading is going on.

Money. Several means have been employed to secure greater convenience and power in exchange. Of these the first to be noted is money. In barter, objects of actual

utility are exchanged under conditions of immediate advantage in the trade. In early times skins were traded for dried fish, as in our own times in the rural districts eggs are exchanged for sugar. As business experience ripened, however, the community found that some things, for various reasons, were always in demand and that these in consequence could be accepted in exchange for other things, held for a time, and later traded again. Any object so esteemed by the community became a **medium of exchange**, a medium by which trading was done, or in the terms of the modern business world, **money**.

In different communities various articles served the purposes of money. The long list of things that have been used as money in times past includes such widely differing commodities as dried fish, animal skins, cattle, wheat, salt, wampum, fishhooks, tobacco, and iron. Any of these, at the proper time and place, was accepted in exchange for other things, and was later used to pay for something that the holder found necessary for the satisfaction of his wants. In this way iron, zinc, copper, silver, and gold became money commodities. Eventually, in the civilized and highly organized communities, gold and silver displaced all the baser metals. They are now distinctively the money metals, although copper and nickel are still used in coins of small denominations.

Gold and silver displaced other money commodities for many reasons, some of the most important of which are the following:

- (1) Owing to the difficulties that accompany their production, they show high value in small quantity.

- (2) They can be readily and accurately divided and converted into coins.

(3) They are beautiful and durable, and therefore highly prized by all communities.

(4) They have in general shown a world-wide uniformity in value, which makes them highly suitable as a medium of exchange in trading between different communities as well as among traders in the same community.

Credit. The use of credit may be looked upon as the second means that has made possible the rapid development of the modern commercial community. There are conditions, of course, under which money is used every time a want is satisfied. When, however, transactions are numerous and extend over an area widely separating the parties involved, the use of money would be inconvenient and often impossible. Moreover, the use of money would limit business transactions to the amount of actual money available in a community and to the slow movement of money in exchange. Such difficulties have been eliminated by the use of credit.

Credit may be defined as the power or the right to secure something at the present time for an equivalent to be given at a future time. From the definition it must be concluded that the use of credit rests upon the trust and the confidence that prevail among traders, or buyers and sellers. At the foundation of its use lie two judgments: first, that the one who has promised will be able to fulfill the promise; second, that he will be willing to do so.

It is estimated that only about 5 % of the business transactions of the United States are settled with money; 95 % are eventually settled by the offset of one credit claim against another. This emphasizes the importance of a reputation for honesty and integrity in meeting obligations, and the advantage of developing in the business

community a condition of confidence as the most important basis of success in life.

When confidence is lacking, business transactions on a credit basis are rendered difficult, if not entirely impossible, and credit relationships can be entered into only on the basis of some kind of definite assurance that the promise will be fulfilled. This is known as "providing security." Even under normal conditions of confidence, this need for supplementary assurance gives rise to many contracts known in general as **securities**.

Business Customs and Institutions. As a result of credit, great business institutions have developed that are designed to handle credit transactions and to organize and make available the credit of individuals. In our day, banking, insurance, and other business enterprises associated with the use of credit perform an important service in enabling business affairs to be conducted with convenience and security. Furthermore, as a result of the use of credit, customs and methods of doing business have arisen requiring the use of many business papers and instruments involved in the collection, transference, and security of credit relationships. Such instruments must be understood and used with care, in order to safeguard the interests of the parties to the contract.

QUESTIONS AND EXERCISES

1. How does the present method of satisfying wants differ from the means employed by primitive peoples?
2. What are the most important industries of your community and immediate neighborhood?
3. Why has specialization in industry emphasized the importance of exchange?

4. Notice the kinds of food served at one of your dinners, and list the place or places from which each of the articles of food comes.
5. Trace the journey in exchange of each item discussed under the previous question from its origin to the store from which it was bought.

II. MONEY SYSTEM OF THE UNITED STATES

While many business transactions are settled without the use of money, yet this is still the medium in terms of which the exchange values, or prices, of commodities, of wages and salaries, of rents, and of all kinds of public and private obligations are expressed. Money is also the standard of deferred payments. Contracts are constantly made that promise to pay debts at a future date, and it is money that serves as a standard in making the payment when due. The reliability and the stability of credit transactions depend to an important extent on the reliability and the stability of the monetary system of the country.

Metal Money. It will be interesting, therefore, to note briefly the monetary system of the United States. At the heart of the system is the dollar. Congress has declared that 23.22 grains of fine gold or 25.8 grains of gold, nine tenths fine, properly coined, is a dollar, — the unit in terms of which the values of other things are to be expressed. For convenience, gold coins have been issued containing two and a half, five, ten, and twenty times the weight of gold in the dollar; these are known respectively as the quarter eagle, the half eagle, the eagle, and the double eagle (\$2½, \$5, \$10, \$20).

For valuations less than a dollar, silver, nickel, and copper are used. At the head of the silver coinage is the silver dollar, which, as Congress prescribes, contains 371.25 grains of silver. The other silver coins are the half dollar, the quarter dollar, and the dime, containing respectively 173.61 grains, 86.805 grains, and 34.722 grains. Nickel and copper are used in the five-cent piece, and copper and tin and zinc in the one-cent piece.

Congress does not attempt to fix the value of its coins in exchange. It limits its action to safeguarding the form, the weight, and the fineness of the coins issued, and to directing the government to hold itself ready to give a gold dollar for a silver dollar upon application.

Paper Money. Besides the metal money to which reference has been made, the government of the United States has issued a number of different kinds of paper money. Each of these is a promise of the government to deliver directly or indirectly a number of gold dollars upon demand.

First, the **United States note**, or **greenback**, is a promise of the government to pay the holder a specified number of dollars on demand.

Second, the **gold certificate** arises from a provision of the government whereby gold, either as coin or bullion, may be deposited in the United States Treasury and certificates equal to the amount of the gold may be issued.

Third, the **silver certificate** rests upon a provision of the government for deposit in the Treasury of silver coins and for issue of certificates of deposit therefor, to avoid the inconvenience of handling the silver.

Fourth, the **treasury note** arises from a privilege similar to that extended to owners of silver bullion.

Fifth, the **national bank note** is a promise of a national bank to pay the holder the amount named on the note in legal tender money of the United States. Such notes are secured by a deposit of United States bonds with the treasurer of the United States, which are forfeited and sold to redeem the obligations, if the promises are not fulfilled.

Sixth, the new **Federal reserve note** is a note issued by a Federal reserve bank, to serve as a kind of emergency currency, upon the security of commercial paper and a certain percentage of gold.

There are other forms of paper money of varying importance, but as they are not in current use, it will not be necessary to consider them here. All the paper currency, however, promises payment of legal tender money, and as all legal tender money practically implies final settlement, directly or indirectly, in gold, the entire money system of the United States ultimately rests upon the gold dollar. The character of the gold dollar is fixed by Congress; but its value is determined by intricate economic conditions, a discussion of which is beyond the scope of this study.

Legal Tender. In conclusion, it may be added that at the present time the legal tender money of the country — that is, money which by the declaration of the government must be accepted in settlement of debts — includes any gold coins, silver dollars, United States notes or greenbacks, treasury notes, and reserve notes, as well as fractional silver currency to the amount of ten dollars, and nickel and copper coins to the amount of twenty-five cents. Gold and silver certificates and national bank notes are not legal-tender money, but pass as freely in exchange as any of the other kinds of money.

QUESTIONS AND EXERCISES

1. What causes the difference in size between a silver dollar and a gold quarter eagle?
2. Why is not iron used for money instead of gold?
3. Read the wording on a one-dollar bill. What is the difference between it and a silver dollar? What gives the paper money value in exchange?
4. In what ways would a man be inconvenienced if he held much property but absolutely no money? Could he get along comfortably without the latter?
5. Secure as many examples of paper money as possible, and compare the promises made by the government in the different kinds.

III. BILLS, INVOICES, AND STATEMENTS OF ACCOUNT

As many transactions take place on the basis of credit, or on account, several types of business instruments or papers have come into use to effect payment and settlement at a future date. First among these papers may be mentioned bills, invoices, and statements of account.

Bills and Invoices. A bill is an itemized statement of goods sold or of services rendered. When accompanying or following a shipment of goods as a memorandum of the shipment, it is frequently called by the buyer an **invoice**. It should show the names of the parties buying and selling, the date and the place of the sale, the kind, the quantity, and the price of the goods sold, or the nature of the work done, and the terms of the sale.

When a bill is paid, it is customary for the one to whom payment is due to **receipt** the bill by writing at the

bottom, "Received payment" or "Paid" and his signature, together with the date on which payment is made. If another person receives the payment for the one to whom it is due, it is usual for him to affix his own name after writing the name of the one entitled to payment; as, "Jones, Dudley, and Company, per A. T. Lansing."

BILL OF SERVICE

Bangor, Maine, *September 2, 1918*

Mr. Alfred J. Smith, Jr.

To HENRY S. JOHNSON, Dr.

		For 5 days' labor gardening			
		\$2.00			\$10 00
		Rec'd Payment			
		Sept. 4, 1918			
		Henry S. Johnson			

BILL OF GOODS

Philadelphia, Pa., September 2, 1918

Mr. Alfred J. Smith, Jr.,

Bought of JONES, DUDLEY, AND COMPANY

Terms: 30 days net

	1 bbl. Standard Flour	10.00	10 00		
	$\frac{1}{2}$ doz. cans Tomatoes	2.60	1 30		
	$\frac{1}{2}$ doz. cans Corn	2.50	1 25	12 55	
	Paid				
	<i>Sept. 4, 1918</i>				
	JONES, DUDLEY, AND COMPANY				
	Per <i>A. T. Lansing</i>				

Statements of Account. A statement of account shows, in addition to the indebtedness, the payments made toward settling the debt, as well as any offset credits in favor of the debtor. If an invoice was delivered to the buyer at the time of the purchase of the goods, it is not customary to list the items of purchase on the statement. Under such circumstances the statement simply gives the amount and the date of each purchase "As per bill rendered." If an invoice was not delivered, the statement is itemized the same as a bill. The following statement of account shows a part payment and an offset credit for goods that were returned. When finally paid in full, a statement of account is receipted in the same way as a bill.

Baltimore, Md., September 2, 1918					
Mr. J. H. Baxter,					
New Orleans, La.					
To THE BALTIMORE GROCERY COMPANY, Dr.					
July 1	To Mdse. per bill rendered	140	00		
Aug. 1	" " " " "	50	00	190	
Cr.					
July 5	By Mdse. returned	30	00		
Aug. 1	By check	150	00	180	
Balance due				10	

Cash and Trade Discounts. Reductions or allowances from the amount of a debt are known as **discounts**.

Many business houses permit buyers thirty, sixty, or ninety days in which to pay their bills; but, as an encouragement of prompt payment, they allow a certain per cent of the total amount of the bill as a **cash discount**

if the debt is paid before the expiration of the credit period, as 5 % off if the debt is paid in ten days, and $2\frac{1}{2}$ % off if it is paid in twenty days. Such discounts are stated as follows:

Philadelphia, Pa., September 2, 1918					
WINANT AND DRAKE					
Fine Imported and Domestic Dry Goods					
Sold to McWilliams and Jones,					
Boston, Mass.					
Terms: 1 % 10 days or net 30 days					
	20 yd. Silk	1.00	20 00		
	25 doz. Hose	2.40	60 00		
			80 00		
	Less 1% discount		80	79 20	
	Rec'd payment				
	9/9/18				
	WINANT AND DRAKE				

Manufacturers and wholesale dealers usually allow those who buy in large quantities a **trade discount**, which is a per cent to be deducted from the total amount of the bill. Frequently several trade discounts are allowed, as, 20 %, 10 %, and 5 %. The 20 % is first deducted; then 10 % from the remainder; then 5 % from the second remainder. If there is a cash discount, this is deducted last.

Assignment of Bills. The right to payment of a debt may be transferred by writing across the back of the bill or the statement of account, "In consideration of . . . dollars, the receipt of which is hereby acknowledged, I

hereby sell and assign to . . . , the within account, and I hereby authorize the said . . . , to collect it," together with the signature of the one to whom payment is due.

Receipt when Bill Is not Rendered. In the settlement of a debt for which a bill or a statement of account has not been rendered, the payment should be accompanied by a written receipt as follows:

Chicago, Ill., ----- 191
Received of -----
----- Dollars
\$ ----- (Signature) -----

QUESTIONS AND EXERCISES

1. Draw up an original bill for some service that you have performed.
2. Gather together several bills, and study the difference in their headings and their form.
3. What essentials are common to all forms of bills?
4. Draw up a lawyer's bill for services in defending a suit for Robert Lee. Assume that you are the lawyer and that your professional fee is \$275. The court costs amount to \$30. A registration fee of \$3.50 is involved and the services of a stenographer, employed for seventeen hours at \$1.00 an hour.
5. Draw up a cabinetmaker's bill for remodeling an antique sideboard. Assume that you are the cabinetmaker. Extra materials cost you \$175, and labor employed, \$50. In addition, one dollar is spent to secure delivery of the piece of furniture.

IV. COMMERCIAL DRAFTS

Development and Form. A second type of business instrument used to effect settlement and payment of a debt is the **commercial draft**. In its origin, the commercial draft is an order by one person on another to pay a third person a specified sum of money on demand or at a definite time. The person who draws the draft is known as the **drawer**; the one drawn upon, as the **drawee**; and the one to whom it is made payable, as the **payee**.

TWO-PARTY SIGHT DRAFT

<i>\$100⁰⁰</i>	<i>Seattle, Wash., September 2, 1918</i>
----- At sight -----	
Pay to the order of ----- <i>Myself</i> -----	
<i>One hundred⁰⁰</i> ~~~~~~ Dollars	
Value received, and charge to the account of	
<i>Allan Smith</i>	
To <i>Thomas Jones,</i> <i>Boston, Mass.</i>	

Under earlier conditions of trade, this method of settling indebtedness constituted a convenient and reliable form, particularly when the drawee and the payee lived in the same community. Its advantage showed itself in relieving the drawee from sending to the drawer a sum of money over long distances, which, in early times, was accompanied by many risks. Under the improved conditions of modern exchange, these risks have been greatly reduced. Consequently the original use of the commercial

draft, involving three parties, has been reduced to a form that limits the transaction to two parties, the drawee and the drawer, the former remitting directly to the latter through channels for such purposes established by commercial banking institutions. The old form is known as a **three-party draft**; the restricted form, as a **two-party draft**.

TWO-PARTY TIME DRAFT WITH ACCEPTANCE

\$100 ⁰⁰	Seattle, Wash., September 2, 1918
-----Thirty days after date-----	
Pay to the order of	-----Myself-----
One hundred	-----Dollars
Value received, and charge to the account of	
<i>Accepted Sept. 10, 1918 Thomas Jones</i> <div style="text-align: right;">Allan Smith</div>	
To Thomas Jones, Boston, Mass.	

When the draft is payable at sight or on demand, it is additionally designated by being called a **sight draft** or a **demand draft**; if a specified time is allowed before payment of the instrument by the drawee is required, it is known as a **time draft**. Under the latter circumstances, however, in order to be regarded as an obligation of the drawee, business practice requires such a draft to be **accepted**. This means that the drawee indicates his willingness to pay the requested amount by writing across the face of the instrument "Accepted," together with his signature, and sometimes the place of payment. When a time draft reads "after sight," the drawee must date his acceptance. When

once thus accepted, a time draft is commonly known as an **acceptance**, under which title it passes in the business world.

Use of Commercial Drafts. As an illustration of the practical use of commercial drafts, let us assume that James Madison, of Chicago, Illinois, is indebted to Henry Longstreth, of Denver, Colorado, for \$250. In the process of collecting the debt, the latter may draw either a sight draft or a time draft upon the former. If either form is used, the draft may be made payable to himself or to a commercial bank in Denver, which is made the agent in collecting the debt. If the drawer makes the draft payable to himself, he must transfer to the bank the right of collection by indorsing the draft, that is, by writing on the back of it "For collection, pay to the order of (name of bank)," together with his signature. In either case the bank then sends the draft to its own banking agent in Chicago, which presents it to the drawee.

If the draft is a sight draft, its requirements are met only by immediate payment, and in due course the amount involved is remitted to the bank in Denver, which then gives the drawer credit. If, on the other hand, the draft is a time draft, the agent bank in Chicago presents it to the drawee for acceptance, as indicated on page 20. Upon securing acceptance of the draft, it is customary for the agent bank to hold the draft until it is due, and then to demand payment, upon which remittance is made to the drawer in the same way as in the case of a sight draft.

Special Uses of Commercial Drafts. For some time it has been more or less a practice to make use of commercial drafts to secure payment for goods sent under circum-

stances in which the credit of the buyer is uncertain. This is done by attaching to the bill of lading, or the transportation receipt for the goods in transit, a draft calling for either payment or acceptance before delivery of the goods. The draft, by thus accompanying the bill of lading (which is forwarded by way of the commercial banking system), compels the purchaser to pay or definitely to obligate himself to pay for the goods before they are released. This use of the **bill of lading with draft attached** is widely employed in some lines of business.

TRADE ACCEPTANCE			
NO <u>712</u>	NEW YORK	JUN 26 1917	<u>2712.18</u>
SIXTY days		AFTER	date
THE ORDER OF		John Barrow & Co.	
Three thousand seven hundred and twelve and 18/100		DOLLARS	
THE OBLIGATION OF THE ACCEPTER HEREON RELEASES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER			
TO	W. Cosgrove & Co.	SIGNATURE	John Barrow & Co.
	New York, N.Y.		New York, N.Y.
DUE	JUNE 25 1917	PAYABLE AT	

The recent practice of attaching to the invoice a draft for acceptance is gaining favor. This procedure may or may not be accompanied by the allowance of a special cash discount, as under old conditions, to encourage prompt payment or acceptance. Such drafts are called trade acceptances.

A **trade acceptance** is a draft drawn by the seller on the purchaser of goods, and accepted by the purchaser.

For example, in the above illustration, W. Cosgrove and Co have bought goods to the value of \$3712.18 from John Barrow and

Co., on sixty days' time. On receipt of the goods, W. Cosgrove and Co. *accept* a draft drawn by the seller, and made payable when the bill matures, that is, sixty days after April 26, 1917. After indorsing this acceptance, the seller can discount it in a bank, as explained in a later lesson, and the Federal reserve bank (see p. 40) will, if required, rediscount it for its member banks. In this way the seller can immediately convert the account into cash or bank credit, although the buyer is not required to pay the bill until maturity.

The use of trade acceptances is helping to strengthen and render negotiable much business credit that was formerly not readily convertible into bank credit.

QUESTIONS AND EXERCISES

1. What circumstances make it convenient and desirable to make use of a commercial draft? What advantages accrue from the use of such a draft?
2. Why were three-party drafts more commonly used in the past than they are under modern conditions?
3. Assume that Richard R. Grant, of Boston, owes you \$150. Draw a two party sight draft to collect this amount. What steps will your bank take to assist you in the collection? What steps should you take to inform Mr. Grant that you are drawing on him?
4. Assume that you owe J. W. Burt, of Chicago, \$500. He draws a thirty-day time draft on you, and sends it through the Chicago Continental Bank for collection. Find out as nearly as possible the course of this draft from the time it is presented to the Chicago bank to the time it is presented to you.
5. Why is the indorsed trade acceptance readily acceptable to a bank for discount?
6. State the advantages of trade acceptances.

V. PROMISSORY NOTES

Definition and Purpose. A promissory note is a promise in writing made by one person or party to pay another a given amount of money at a stipulated time. The person or party making such a promise is called the **maker** of the note, and the one to whom the amount is to be paid is designated as the **payee**.

The promissory note is a special kind of business instrument which has, as compared with the check, a limited application to the incidental business affairs of people generally. It would be better if the average person never availed himself of such an instrument, for its avoidance means prompt payment of indebtedness, a condition highly desirable in domestic and personal business relations. The promissory note, however, serves a useful purpose in the commercial world, since it enables business men to buy more freely on credit than they could by a mere verbal promise to pay.

The promissory note, therefore, indicates a credit transaction, but all credit transactions are not accompanied by such a note.

For instance, you may buy on a month's credit all your household provisions, and if you pay your bills in cash at the end of each month, you will have no need for a promissory note. If, however, you have not the money with which to pay your January provision bill, and your grocer will not supply your February needs without some agreement in writing by you to settle the January account within a definite time, you may offer him, and he may accept, your promissory note for the overdue amount. This note would take the following form :

PROMISSORY NOTE

\$50 ⁰⁰	Burlington, Vermont, February 1, 1918
One month after date I promise to pay to the order of	
-----Jeremiah Hanley-----	
Fifty ⁰⁰	~~~~~Dollars
Value received, with interest at 6%	
Due March 1, 1918	Emerson Holt

Important Features of a Good Note. Every note must be signed by the maker. It must designate the payee by name, and must promise to pay a definite sum to him or to his order. It should be dated, although absence of date does not invalidate the promise. It should be filled in with ink, but the instrument is just as legal and binding if written with pencil. The amount of money involved should be written both in figures and in words. Should these for any reason not agree, the written amount is accepted as correct.

Non-Essentials of a Note. It is still common to write in the notes the words "Value received," in order to show consideration underlying the transactions. Many notes, however, pass hands daily without these words. Another survival of old customs, and one of still less significance, is the occasional use of the phrase "without defalcation," which is entirely out of date except in a few states where the law requires its insertion. It is not necessary to specify any particular place where the note is to be paid, although this is generally done by business men, either their bank or

their business address being designated. The business man, for convenience in record keeping, numbers his notes, as he does his checks.

Unless so stated in the promise, interest is not to be paid. If any other than the legal rate is to be paid, that rate must be specified in the note. If the promise concludes with the words, "with interest," the legal rate of the state in which it is drawn is understood.

Usury, or the practice of charging rates of interest above the legal limit, is forbidden by statute law. A note that is non-interest-bearing during the time agreed upon begins to bear interest immediately after the due date, if it is not then paid.

A type of promissory note that is very common and one containing all the essentials and some non-essentials is the one following:

PROMISSORY NOTE

\$250 ⁰⁰	Des Moines, Ia., February 1, 1918
Three months after date I promise to pay to the order of	
John B. Hill	
Two hundred fifty ⁰⁰	Dollars
at The Second National Bank of Des Moines	
Value received	
#46	Due May 1, 1918
Samuel Penn	

Kinds of Notes. Promissory notes most common to business are distinguishable in points of (1) time when due,

(2) negotiability, (3) number of signers or makers, (4) interest, and (5) security.

The notes thus far described are called **time notes**, because they run for a definite time, and meantime cannot be collected. Another type is the **demand note**, one in which the maker agrees to pay whenever payment is demanded. Instead of “. . . days after date,” the demand note reads “On demand after date,” or “One day after date on demand.”

Notes are either **negotiable** or **non-negotiable**. By “negotiable” is meant “transferable”; that is, capable of being passed from the original owner or payee to some one else. In order to make the note negotiable, it is necessary to make it payable “to the order of” the payee, so that if the payee wishes to transfer the ownership to another person, he may order it to be paid to that person by writing such instruction on the back of the note. The note forms thus far shown are all negotiable.

Notes may be signed by more than one person or company as makers. When so signed, they are called **joint notes**, and each of the signers is liable for a proportional part of the amount. Such a note is introduced with the words, “We jointly promise to pay.” When each of such makers agrees to hold himself fully liable in case the others are unable or unwilling to pay, the introduction should read, “We jointly and severally promise to pay.” Such a note is called a **joint and several note**.

Security. The use of promissory notes depends not only upon the credit standing of the maker of the note, but frequently upon the kind of security the maker can offer, to assure settlement of the promise. Security for the payment of notes is of two kinds: personal and lien.

Personal security consists, first, in the credit strength of the maker himself, and, second, in the standing of those who supplement the credit of the maker by **indorsement** or **accommodation**, or by guaranty of payment in some other form. If A's note is not acceptable, A may ask his friend B, whose standing is good, to write his name across the back of the note, and thus vouch for A's payment of it. If B has no business interest in the transaction, he is called an **accommodation indorser**. Accommodations of this character are hazardous and should be avoided. Many men have become financially involved, to the distress not only of themselves but of their families also, by being called upon to pay the notes of friends whose credit they have guaranteed in a purely accommodating manner.

Lien security takes the form of title to property of some kind, which is pledged for the payment of the note. Lien security is commonly stocks, bonds, or mortgages, which must be left with the payee until the note is paid. In order to protect the payee against depreciation, the value of the securities must be greater than the amount of the loan.

Another but less common kind of note with lien security is what is called a **judgment note**. It is the type of promissory note exacted from a debtor who is in the last financial straits, whose individual credit is gone, who cannot get personal security to his notes, and who has no marketable collateral. Appended to an ordinary note is a **confession of judgment**, which, among other things, binds the maker for the cost of the suit, if one arises, waives his right to appeal, and also his right to avail himself of laws exempting property, real or personal, from levy and sale.

A note of this kind is so grinding in its terms, that dire extremity is the only justification for its use.

JUDGMENT NOTE

\$500⁰⁰

New York, N. Y., May 10, 1916

One year after date, for value received, I promise to
pay to ----- John Reynolds ----- or order

Five hundred ⁰⁰ ----- Dollars
with interest, without defalcation or stay of judgment. And I do
hereby confess judgment for the above sum, with interest and cost of
suit, a release of all errors and waiver of all rights to inquisition and
appeal, and to the benefit of all laws exempting property, real or per-
sonal, from levy and sale.

Samuel Payne

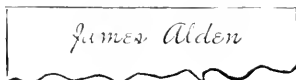
QUESTIONS AND EXERCISES

1. What are the essentials of a properly drawn promissory note?
2. Assume that John Browning borrows \$100 from you with the understanding that the amount is to be paid back when you ask for it. Prepare a promissory note to meet these circumstances. Change it to make it payable in thirty days.
3. Under what circumstances would it be desirable to make use of a non-negotiable note?
4. Prepare a note in which you and one other member of your class become jointly and severally responsible for a debt of \$100 due your teacher.
5. Read the contract of a judgment note. Analyze its clauses and explain why this type of promise is an extremely drastic one.

VI. INDORSEMENT AND PROTEST

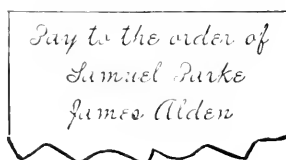
Indorsement. It is frequently desirable for the payee of a note or of a draft to make it payable to some one else. This is done by indorsement.

In its simplest form, **indorsement** consists in the payee's writing his name across the back of the left end of the instrument. This is known as **indorsement in blank**, and appears as follows :



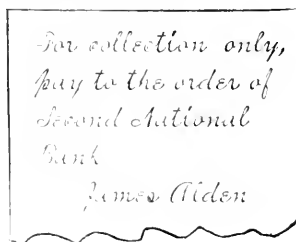
James Alden

Another form, known as **indorsement in full**, sets forth the order of transfer in full. This consists in the payee's writing on the back of the instrument, " Pay to the order of the (new payee) " and signature as follows :



*Pay to the order of
Samuel Parke
James Alden*

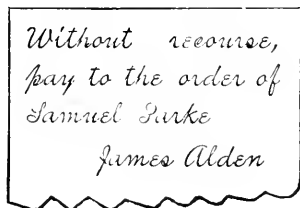
Still another form is the **restrictive indorsement**, which transfers rights in the instrument only for specific purposes ; as, for example, transfer to a bank for collection. This indorsement appears as follows :



*For collection only,
pay to the order of
Second National
Bank
James Alden*

Each one of these forms of indorsement legally signifies that the indorser vouches for the genuineness of the instrument which he is transferring, and agrees to be held responsible for its payment in case the original maker or the prior indorsers fail to pay it when it becomes due. The laws regarding the indorsement of notes, drafts, and other negotiable instruments vary in different states. In most states, however, indorsers can be held responsible for the payment of an instrument only in case the holder gives them notice of non-payment on the part of the maker within twenty-four hours after the instrument becomes due. Each indorser is responsible to all indorsers who follow and also to the holder of the note at its maturity.

A **qualified indorsement** is effected by writing "Without recourse" over the indorsement. By this means the holder of the instrument is compelled to look to the original maker or other indorser, if any, for payment, and not to the person who has indorsed "without recourse." The form of this indorsement is as follows:



*Without recourse,
pay to the order of
Samuel Burke
James Alden*

Protest. As was said above, in order to hold indorsers responsible for the payment of a negotiable instrument, notice of non-payment must be given to them. In compliance with this requirement, it is customary, when a promissory note or an accepted draft meets with non-payment, for the holder to make a formal **protest** to the

maker and the indorsers of the instrument before a notary public. The notary public certifies that the note or other negotiable instrument was presented for payment and that payment was refused; and he thereupon protests against the maker and indorsers for the amount of the instrument, including damages and costs. The purpose of this protest is to fix the liability of the indorsers, and to afford good evidence of **dishonor**, that is, of the non-payment of the instrument. This notice of dishonor should be sent to each of the indorsers within twenty-four hours after the instrument has matured and has been presented to the maker for payment. Where possible, the notice ought to be served personally. If it is not possible to do this, the notice should be sent through the mails so as to bear a postmark date not later than twenty-four hours after dishonor of the instrument. Notice of non-payment may be served upon the indorsers by the holder himself, but formal protest must be made by a notary.

FORM OF NON-PAYMENT NOTICE

Mr. Henry R. Little

Philadelphia, Pa.

Dear Sir:

A certain note now in my possession drawn by Thomas Grove in your favor, for the sum of Two Hundred Dollars, payable in sixty days, from the fifth of March last, and by you indorsed to me, was duly presented by me to Thomas Grove this day and payment refused. Please take notice that I look to you for payment.

Yours truly,

John Adams

Philadelphia, Pa., April 30, 1918

FORMAL CERTIFICATE OF PROTEST BY NOTARY

STATE OF PENNSYLVANIA

Bucks County

} ss.

BE IT KNOWN, that on this

4th day of May in the year of our Lord *one thousand nine hundred and eighteen* I, *James Wilson*, a Notary Public, duly commissioned and sworn, and residing in Doylestown in said county and state, at the request of *John Adams*, went with the original note, which is above attached, to the office of *Thomas Grove* and demanded payment thereon, which was refused by him.

Whereupon I, the said Notary, at the request of the aforesaid, did protest, and, by these presents, do solemnly protest, as well against the maker of said note and the indorsers thereof, as all others whom it may and doth concern, for exchange, for re-exchange, and all costs, charges, damages, and interest already incurred by reason of the non-payment of the said note.

And I, the said Notary, do hereby certify, on the same day and year above written, and within twenty-four hours from the time of such protest, due notice of the foregoing was put in the post office at Doylestown as follows:

Notice for *Henry R. Little, Philadelphia, Pa.*

Notice for

Each of the above-named places being the reputed residence of the person to whom this notice was directed.

In Testimony Whereof, I have hereunto set my hand and affixed my Official Seal, the day and year above written.

James Wilson

Notary Public

QUESTIONS AND EXERCISES

- I. Compare indorsement in full and in blank with respect to safety in use.

2. Get a number of used checks, and study their indorsements. Find out who is ultimately responsible for the amount represented by the check.
3. Give as many reasons as possible for notifying indorsers at once when a negotiable instrument is not met.
4. Assume that you hold a note of John Danvers for \$100. The original payee was James Baynard, who indorsed the note over to Isaac Ridgway, who in turn by the same method passed it to John Peabody. When presented for payment, the note was protested. Prepare a non-payment notice, and indicate to whom it should be sent.
5. Find out the cost of protesting a note before a notary in your neighborhood.

PART II

BANKING AND SAVINGS INSTITUTIONS

VII. GENERAL PRINCIPLES AND CLASSIFICATION

Development of Banking. Great changes have taken place in banking during the last four centuries. The modern banker is, to a large extent, a dealer in credit. In ancient days he was primarily a custodian of money, or at most a buyer and seller of foreign moneys. Even as late as the Middle Ages, the insecurity of property and the risks attending commerce practically made the business of banking mere money changing. So throughout most of its early development, banking is closely identified with the activities of money-changers and of goldsmiths.

The rise of modern banking dates from the establishment at Venice of the Banco di Rialto, in 1587, which received deposits subject to call and permitted its customers to transfer their credits by order. Twenty-five years later, the Bank of Amsterdam and the Bank of Hamburg were established, each of which performed a function similar to that of the Banco di Rialto.

At first, during this period of development, the profits of banking came altogether from commissions upon deposits and from the exchange of domestic for foreign moneys. Later the growth of social security and good order made it

possible for bankers to make use of drafts and bills of exchange and even to lend the money which had been intrusted to them. It was not until the eighteenth century that banking showed the two characteristically modern features: the issue of notes not secured by coins and the grant of loans to depositors upon their personal credit.

During the nineteenth century, the vast extension and complexity of industrial, commercial, and financial relations compelled the use of credit facilities never before imagined, and brought wonderful changes in the manner of applying them effectively and safely. Under the new conditions, banking is important in the everyday life of most people, and banking institutions have risen to a position of economic prominence never aspired to by the ancient banker. Banks to-day not only do a large part of the work incident to the settlement of credit transactions, but upon them also falls the burden of keeping safely invested the accumulated capital of the community. Because of the variety of the services demanded of them, banks are compelled to specialize in particular fields of the banking business.

Commercial Banks. Commercial banks provide especially for the settlement of business transactions and indebtedness by affording a regular channel for the use of checks, drafts, and other bills of exchange, for which purpose money and other funds are received on deposit. They lend funds for short periods of time; they provide for the collection of claims represented by promissory notes and commercial drafts; and they take over at interest rates immature promissory notes and drafts which have been resorted to as a means of temporary settlement in business transactions. To this class of banks belong the **national** and **state banks** as well as the banking departments of **trust companies**.

Savings Banks. Savings banks and savings fund societies are institutions that take on deposit small amounts of savings, primarily of wage earners, invest them in a prescribed manner, and, after expenses are paid, distribute the net earnings to the depositors in the form of dividends or interest. As an incident to the investment of their funds, these banks lend money under suitable conditions of security for long periods of time.

Coöperative Banks or Building and Loan Associations. Coöperative banks or building and loan associations, although by nature closely allied with the savings institutions, are distinct inasmuch as such associations were developed for the purpose of advancing to the wage earner funds for his immediate use on the security of his future savings. Such associations are variously known as **co-operative banks, building and loan associations, savings fund and loan associations, and coöperative savings and loan associations.** All are coöperative associations designed to furnish a safe means for the accumulation and investment of savings, accompanied with an opportunity to secure funds at reasonable rates for immediate use, particularly for the purpose of building homes and improving real property.

Private Banks. Private banks are banking agencies that give particular attention to the collection and settlement of debts arising in foreign trade, to the transfer of funds from one country to another, to the lending of money, and to the investment of capital through the marketing, purchase, and sale of stocks and bonds and other securities.

Trust Companies. While trust companies maintain in most instances flourishing banking departments, they were originally formed to do what is still their characteristic

service; namely, to act in trust capacities as agents, trustees, executors, administrators, guardians, assignees; as receivers for individuals, business associations, or corporations; as promoters or reorganizers of corporations; as sellers of stocks, bonds, and other securities; and as agents for settlement of obligations maturing at a future time, such as premiums on insurance, and interest on bond and mortgage issues.

QUESTIONS AND EXERCISES

1. What is the origin of the word "bank"?
2. Give as many reasons as possible for the present importance of banking institutions.
3. How many different types of banking institutions are located in your neighborhood, and what specific services does each type perform?
4. Why does the government exercise a closer supervision over banking institutions than over other kinds of business enterprises?
5. What was the number of commercial, savings, and other banking institutions at the time of the last census? At the time of the preceding census? How do you account for the increase?
6. What are some of the causes for the great growth of trust companies?

VIII. COMMERCIAL BANKS

Nature and Kinds of Commercial Banks. Commercial banks owe their importance chiefly to the enormous use of credit as the basis of exchange. They receive money and other funds on deposit and afford a channel for the use of checks, bank drafts, and other bills of exchange.

They perform an important service also in providing for the collection of promissory notes and commercial drafts, and in taking over and holding until maturity promissory notes and time drafts offered in settlement of business transactions. In addition, they lend funds for short periods of time, and thereby make available over large areas individual credit that would otherwise be narrowly limited to local circles.

To the group of commercial banks belong the members of the National Banking System, the commercial banks authorized and organized under state regulations, and the commercial banking departments of trust companies, which have grown rapidly during recent years. The internal organization and the methods of business of state banks and of the banking departments of trust companies differ but slightly from those of national banks.

The National Banking and Federal Reserve Systems. Previous to 1863, the commercial banks of the United States grew up as independent institutions. They were lacking in uniformity and coöperation, and carried on their work under a great variety of state regulations and supervision. While several of them were held in great respect for their reliability and took every precaution to safeguard their customers, so many others operated without regard to the welfare of those dependent upon them for their banking service, that the commercial banking facilities of the whole country were threatened with a breakdown.

In order to prevent this, Congress, in 1863, passed the National Bank Act, under the provisions of which a National Banking System of commercial banks was established under Federal supervision and control. This secured a large degree of uniformity and coöperation in the activities and operations of commercial banks throughout the

country. Moreover, through the maintenance of capital and reserves, the limitations upon loans, the liabilities of stockholders and directors for mismanagement and fraud, and the exercise of Federal supervision, commercial banking in the United States was placed upon a high plane of usefulness and public confidence.

However, owing to the lack of adequate control over the issue of national bank notes, communities throughout the country found themselves periodically without sufficient current funds. This situation was aggravated by the attitude of individual banks, which out of fear held back currency when it should have been most freely in circulation.

This condition of affairs led Congress in 1913 to supplement the National Bank Act by the Federal Reserve Act. This act established a Federal Reserve System to modify and assist the National Banking System at points where it was deemed necessary.

Under this system the country is divided into twelve financial districts known as Federal reserve districts, in each of which there is a Federal reserve bank. These banks, numbered, like the districts, in order from 1 to 12, are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

The Federal Reserve Act took away from the national banks the power of issuing national bank notes. It gave to the Federal Reserve System the right to take over from national banks promissory notes and acceptances held by them on discount, and to issue Federal reserve notes on the security of this commercial paper, plus an additional specified gold reserve. Since promissory notes and acceptances are resorted to in times of shortage of currency, this

power of the Federal reserve banks provides an automatic means of adjusting the money supply of a community to its needs. In addition to this important service, the Federal reserve banks are authorized to carry deposits for national and other commercial banks within their districts, and to act as agents in settling claims among these banks. This has greatly assisted the process of commercial bank settlements, and promises to do much to simplify both settlements and collections as time goes on.

Organization of a Commercial Bank. According to law, a commercial bank must have available capital before it can begin business. This is provided by a body of shareholders, who elect a **board of directors** to manage the affairs of the bank and to choose the necessary officers and subordinate employees. The officers consist of a president of the bank, sometimes several vice presidents, and a cashier.

The **president** is the personal head of the bank, represents the authority of the board of directors, and is responsible for carrying into effect the policies of the board. Usually this officer interviews prospective borrowers and conducts the important general business relations of the institution.

The **cashier** directs and supervises the internal work of the bank, and is the commanding officer over the tellers, the clerks, and the other employees. He is responsible for the funds, the securities, and all the valuables of the institution, signs the bank checks, the bank drafts, and the receipts, makes the bank indorsements, and has charge of the correspondence and the accounts. New depositors are referred to him, and they are not admitted to the use of the facilities of the bank until he assures himself that their custom is desirable.

The **receiving teller** receives the deposits that come in directly over the counter. The **paying teller** has the custody of the cash funds, and therefore has charge of all the bank's cash payments. The **note teller** receives all payments upon notes or promises to pay due at the bank, and looks after the collection of many items of deposit.

The **credit department** under a **credit clerk** ascertains, records, and keeps in form for ready reference evidence of the financial condition and the credit standing of the customers of the bank.

QUESTIONS AND EXERCISES

1. How did the National Bank Act of 1863 restore confidence in commercial banking, and in what important ways does it afford safety to the depositor?
2. On what principle is the government warranted in designating important cities as reserve cities, and New York, Chicago, and St. Louis as central reserve cities?
3. What is a business panic, and what situations in the community will produce one?
4. What is meant by inelastic currency, and how will the use of inelastic currency lead to panics?
5. In what respects does the Federal Reserve Act assist the agricultural production of the country?

IX. DEPOSITING IN A COMMERCIAL BANK

Opening a Commercial Bank Account. When you apply for the privilege of using the facilities of a commercial bank, you are expected to be introduced and recommended by some one personally well known at the bank or to present letters from such a person vouching for your character

and credit reliability. A blank is filled out with your name and address, your business and its location, and your references.

If your credentials are satisfactory, your name is entered in the books of the bank and your account is opened. Your signature is taken on one or more books, or, nowadays, on cards that are filed. A **pass book** is given to you, in which the bank keeps, for your own guidance, a running account of your deposits. Generally this book is left with the bank from time to time, usually every three months, to be **balanced**; that is, to have the amount of payments that have been made on your checks and other charges against your account deducted from your total deposits. In many instances, however, banks issue formal monthly statements showing the condition of the depositor's account.

Items that May Be Deposited in a Commercial Bank. As a result of one of the fundamental principles of commercial banking, a commercial bank must hold itself in readiness to pay back deposits on demand. If it finds itself unable to do this, it must close its doors, that is, discontinue business. This necessity limits the kind of deposits that may be received from a depositor largely to those which can be quickly and readily turned into funds that may be used to satisfy demands. Items that come within the scope of this deposit requirement are money, checks or drafts upon the bank at which deposits are made, checks or drafts upon other banks, sight drafts upon individuals or business houses, money orders, and interest coupons.

How to Deposit. To make a deposit, you are required to fill out a blank **deposit slip** with the date and your name properly entered at the top, and the character and the amount of your deposit.

You should list your money separately, as gold, silver, or notes, and, in entering the checks, you should write against each amount the name of the bank drawn upon, if it is a local bank, or the name of the town in which the bank is located, if it is an out-of-town bank.¹ List other items similarly. Then add the various amounts, and hand the slip with your deposit and pass book to the receiving teller. When depositing currency, arrange the notes so that those of the same denomination will be together. When depositing checks or drafts, indorse them by writing on the back either your name only, or the words "Pay to the order of (name of bank)," and your signature.

When your name is not written correctly on the face of the check or draft, indorse the paper exactly as it is made payable, and then indorse it again as you commonly write your name.

Checks ought to be deposited or cashed promptly. Under decisions of the courts, you assume all risk if you delay longer than the next succeeding business day collecting or depositing for collection the checks in your possession. If you hold a check longer than forty-eight hours, and the bank on which it is drawn fails, the one who gave you the check is released, and you must take your chances for its payment with the other claimants against the bank.

¹In some localities, banks which are members of the Federal Reserve System, are encouraging depositors to list check deposits under the designation furnished by the reserve district number of the bank against which the checks are drawn. For instance, a check drawn against the Elliott National Bank, which is a member of the third district with a membership number of twelve, is listed on the deposit slip as "3-12." This has the advantage of brevity.

DEPOSIT SLIP

Merchants Bank	
DEPOSITED BY	
<i>Walter H. Foster</i>	
Lincoln, Nebraska, <i>May 15, 1918</i>	
	DOLLARS CENTS
<i>Currency</i> -----	<i>35 00</i>
<i>Silver</i> -----	<i>5 50</i>
<i>Gold</i> -----	<i>10 00</i>
<i>Checks as follows:</i>	
<i>First Nat'l</i> -----	<i>60 00</i>
<i>Chem. Nat'l</i> -----	<i>100 00</i>
<i>P. O. Money Order</i>	<i>10 00</i>

-----	<i>220 50</i>

QUESTIONS AND EXERCISES

1. What would be the result if a commercial bank allowed customers to deposit credit instruments not payable on demand?
2. Find out the conditions among some of the commercial banks of your neighborhood under which you would be allowed to open an account.
3. Get deposit slips from various commercial banks, and

- note what difference they show in the way they require a customer to list the items of deposit.
4. Prepare a deposit slip for the following deposit: \$100 in gold certificates; \$120 in greenbacks; \$50 in gold coins; \$27.53 in other specie; a check given you by John Brown on the First National Bank of your city for \$125; another check for \$35 issued to you by Christian Lantz on the Merchants National Bank of Salem, Massachusetts; a bank draft given you by Paul Jones and issued by the Continental National Bank of Chicago upon the Chemical National Bank of New York.
 5. What purpose does a deposit slip serve besides being the basis of giving you credit for the amount of your deposit? Why is the slip of great importance in settling any difference between the accounts of the bank and the depositor?

X. COMMERCIAL BANK CHECKS

The Commercial Bank Check. As has been pointed out, one of the most important services of the commercial bank is that of settling debts by check. A **check** is a written order for money drawn by one who has funds in a bank payable on demand. Banks provide, for the use of customers, blank checks so arranged in a book that the checks may be torn out, leaving a **stub** upon which entries may be made showing in whose favor the check is drawn, the amount, the number, the date, and for what purpose the check is used. The person who draws the check is called the **drawer**, or **maker**, and the person to whom the money is to be paid is called the **payee**.

It is a simple matter to fill out a check properly, but there are a few essentials in regard to which care must be exercised.

In the first place, although the absence of a date would not warrant a bank in refusing to cash a check, nevertheless a check should be properly dated. If a check is post-dated, the bank is not liable for payment before the date of the check. A check dated on Sunday is valid.

In the second place, the drawer of a check should exercise great care in so writing in the amount as to prevent the possibility of changes or additions. It is a wise plan to begin the writing at the extreme left margin of the check and to draw a waved line after the written words, thus preventing any additional writing.

CHECK

#2	Scranton, Pa., May 15, 1918
Commercial National Bank	
Pay to the order of ----- <i>Alexander Hamilton</i> -----	
<i>Seventy-five</i> ⁰⁰ ----- Dollars	
<i>\$75</i> ⁰⁰	<i>Arthur Grant</i>

In the third place, the signature should be in the style of the one entered on the book or card of the bank when the account was opened, the only one with which the paying teller is familiar.

In the fourth place, a check is usually drawn to order. The words "Pay to the order of" mean that the amount of the order is to be paid to the payee or to any one to whom the payee may order the check to be paid. If a

check is drawn payable "to bearer," any person, the bearer, can collect it, although the paying teller may ask the person cashing it to write his name on the back as a simple precaution or reference. Banks make it a rule not to cash a check that is drawn payable to order unless the person presenting it is known at the bank or unless he satisfies the paying teller that he really is the person to

CHECK STUB

Commercial National Bank	
	<i>May 15, 1918</i>
# 2	
<i>To Alexander Hamilton</i>	
<i>For August grocery bill</i>	
<hr/>	
<i>Balance brought forward -----</i>	<i>\$1230</i>
<i>Amount deposited -----</i>	<i>250</i>
<i>Total -----</i>	<i>\$1480</i>
<i>Amount of this check -----</i>	<i>75</i>
<i>Balance carried forward -----</i>	<i>\$1405</i>

whom the money is to be paid. It should be remembered, moreover, that a check drawn to order and then indorsed in blank — by the payee's writing of his name on the back — is really payable to bearer, and if the paying teller is satisfied that the payee's signature is genuine, he will not hesitate to cash it. If you wish to have a check cashed where you are unknown, or if it is not convenient for a

friend who has an account at the bank to go with you for the purpose of identifying you, it may be necessary for you to deposit it with a bank until collection is actually made.

Use of Commercial Bank Checks for Special Purposes.

If you wish to draw money from your account, the most approved form of check is written "Pay to the order of Cash." This differs from a check drawn "to the order of Bearer," and the paying teller will expect you to present it yourself or at least through some one well known to him as your representative. If you write "Pay to the order of (your own name)" or "Myself," you will be required to indorse your own check before you can get it cashed. If you wish to write a check to withdraw money for the payroll, write "Pay to the order of Wages." If you wish to draw a check to pay for a bank draft, write "Pay to the order of Draft and Exchange." In this way a check itself may be made evidence of the purpose for which the funds were withdrawn.

Transfer of a Commercial Bank Check to Another Person.

If you wish to transfer a check to some other person, you must indorse it either by writing on the back, "Pay to the order of (name of person)" and your signature, or simply your signature. Remember, however, that the latter kind of indorsement is attended with risk, since it makes the instrument payable to bearer.

Bank Checks Should Be Numbered. Checks should be numbered so that each may be accounted for. If your bank does not follow the practice of issuing to you a formal statement showing the condition of your account at the end of a certain period, your pass book or bank book should be left at the bank, at regular intervals, so that the book-

keepers may balance it. It may happen that your bank statement or your bank book may show a larger balance than your check book, indicating that there are still checks outstanding that have not been presented for payment. Numbering the checks thus becomes a great convenience in checking up the canceled checks, or **vouchers**, and in determining which ones have not yet been paid.

QUESTIONS AND EXERCISES

1. Find out what devices are used to prevent "check raising."
2. How should you prepare checks for deposit?
3. What would be the effect if you should indorse a check "Pay to (payee)"?
4. After you have mailed a check to the payee, suppose he notifies you that it has not reached him. What should you do?
5. How can you reconcile a difference between your bank balance as shown by your check book, and the balance as shown by the bank's monthly statement?


XI. COMMERCIAL BANK CERTIFIED CHECKS AND OTHER INSTRUMENTS

Certified Checks. In settling many forms of indebtedness, it may be necessary to have your commercial bank check **certified**. This is done by the cashier or paying teller, who writes or stamps across the face of the check "Certified" or "Good when properly indorsed," and his

signature. The amount of the certified check is immediately deducted from your account, and the bank by thus guaranteeing your check becomes responsible for its payment.

After having a check certified, if you fail to use it, you ought to deposit the check to your account; otherwise your account will be short the amount of the order. This form of check is used especially in transactions where the ordinary check is regarded as not sufficiently secure.

CERTIFIED BANK CHECK

#2	Scranton, Pa., <i>May 15, 1918</i>
	
Pay to the order of	<i>Alexander Hamilton</i>
<i>Seventy-five</i>	..... Dollars
<i>\$75.00</i>	<i>Arthur Grant</i>

Cashier's Checks. A cashier's check is an order on a bank signed by the cashier of the bank. Usually, to obtain this kind of check, as a customer of a commercial bank you would exchange your own check for one issued by the cashier made payable either to yourself or to such person as you may designate. If the check is made payable to yourself, you can readily indorse it to some one else, or, in the event of not using it, deposit it to your account. This form, like the certified check, is employed when the security afforded by the ordinary check is insufficient to enable it to pass in business transactions.

CASHIER'S CHECK

#2	Fort Worth, Tex., <i>June 15, 1916</i>
First National Bank	
Pay to the order of----- <i>Paul Dunlop</i> -----	
<i>Seventy-five</i> ⁰⁰ -----Dollars	
<i>\$ 75</i> ⁰⁰	<i>Daniel Whitman</i> Cashier

Certificate of Deposit. As commercial banks receive general deposits subject to the condition that funds are payable on demand by check to the order of the depositor, it is not, in general, customary for such banks to allow interest on general deposit accounts, although there are many exceptions to this rule. When funds are deposited, however, which are intended to remain for several weeks or

CERTIFICATE OF DEPOSIT

Certificate of Deposit	#212
<i>\$ 1000</i> ⁰⁰	Salem, Mass., <i>May 15, 1918</i>
First National Bank	
This certifies that----- <i>Henry Bates</i> -----	
has deposited in this bank----- <i>One Thousand</i> ⁰⁰ -----Dollars	
payable to the order of----- <i>Charles Bates</i> -----	
in current funds on the return of this certificate properly indorsed, with interest at 4% per annum, if left six months.	
Not subject to check.	<i>Richard Blair</i> Cashier

months, not subject to check, most commercial banks issue to the depositors a **certificate of deposit** which entitles the holder to interest on the amount of the deposit for the time that it is left under the certificate. Such a certificate may be transferred in the same way as a check, by the process of indorsement; or the funds represented by the certificate may be obtained by surrendering it to the bank that issued it.

Bank Drafts. Nearly all banks keep funds on deposit in other banks in large commercial centers, and a bank draft

BANK DRAFT

\$75 ⁰⁰	# 1920
Waterbury, Conn., <i>July 18, 1918</i> Second National Bank Pay to the order of <i>Philip Carter</i> <i>Seventy-five⁰⁰</i> Dollars To the Chemical National Bank <i>Ralph Martin</i> NEW YORK, N. Y. Cashier	

is simply a bank's check drawing upon its deposit in some other bank. Banks sell these drafts to their customers, and speak of the transaction as a sale of **exchange**. Such drafts are widely used in making remittances from one part of the country to another. Drafts upon deposits in the city of New York are especially used, and are known as New York drafts or exchange. Such drafts pass almost as cash anywhere within reasonable distance of the money center upon which they are drawn. These drafts are obtained from a commercial bank in the same way as cashiers' checks, but generally a small charge, known as **exchange**, is

made for their use. This charge for the use of drafts varies with the condition of the money supply as affecting the two banking points involved.

QUESTIONS AND EXERCISES

1. Give illustrations of various circumstances under which a certified check may be used to great advantage in making payment of a debt.
2. Explain the difference between a cashier's check and a bank draft.
3. Under what circumstances is a bank draft a highly desirable instrument in the transfer of credit?
4. What is meant by domestic exchange? What causes lead to a fluctuation in domestic exchange rates?
5. Look up the current domestic exchange rate between New York and Chicago.

XII. COMMERCIAL BANK COLLECTIONS AND SETTLEMENTS

Collections and Settlements. It has already been stated that there may be deposited to the credit of your account at the bank not only actual cash but also requests and obligations to pay, such as checks, drafts, matured promissory notes, money orders, and similar items. These papers represent merely claims of the depositor which are to be collected or settled by the bank. For this work commercial banks have established clearing houses and systems of correspondent banks. The clearing houses provide for the settlement of claims growing out of the banking business of the local community; while correspondent banks afford a convenient means of collecting and settling claims arising from transactions with distant communities.

Clearing Houses. If all the persons of a community were doing business through one bank, when one individual gave a check to another, a settlement of the transfer would involve merely the bookkeeping process of deducting the amount of the check from the account of the one who gave it and adding it to the account of the one who received and deposited it. When, however, one person draws a check on his bank in favor of another person, who deposits the check in another bank, the two banks must come together somewhere to make the transfer of funds requisite to settle the claim created by the use of the check. It is this mutual meeting place that is known as the **clearing house**. The checks, drafts, and other items which the banks present at the clearing house are called **clearing-house exchanges**, and the total exchanges, the **day's clearings**.

The banks that bring claims amounting to less than those presented against them by the other banks must make the difference good in cash or its equivalent within a fixed time upon the same day. By this means settlement between banks becomes merely a payment of balances through the clearing house, which acts as the agent to receive the amounts due from the banks which owe, and to pay the amounts due to the banks which have balances in their favor.

New York Clearing House. An understanding of the workings of clearing houses can be best obtained by a brief account of the New York clearing house, which often has daily clearings equal to the sum of all others in the country. "The banks represented send daily to the clearing house at least two clerks — a delivery clerk and a settling clerk. At the clearing house, each bank has a desk at which the settling clerk or clerks are seated. They bring to the clearing house in bundles the checks, drafts, and other

obligations due them from other banks, each bank being represented by a separate package. They bring also a list of the amounts due them from each of the banks in question. Before clearing begins, totals of these lists are handed to the manager. The sum total represents the aggregate amount to be settled for the day.

“ Promptly at 10 o'clock the delivery clerks begin passing from one desk to another, delivering to each the package of claims of all sorts that their banks have against other banks. These claims are accepted in bulk, without examination of the items. As soon as all the packages have been delivered they are carried back to the banks, where an examination of the items takes place; and if there are any that are not valid, the adjustment takes place between the bank which has received them and that which presented them, without intervention of the clearing house or rectification of the accounts drawn up there. When all the packages have been received by the settling clerks at the clearing house, the latter draw up a statement of demands made upon them.

“As these demands never balance the claims made by their banks, it is obvious that at the close of each day's business some of the banks will be entitled to receive money and others will be obliged to make payments to settle the accounts. When each clerk has made up his account, he forwards a statement of the aggregates, with the amount of the balance to be paid or to be received. When all have forwarded their accounts to the manager, and the accounts are proved by the equality of the debit and credit aggregates and balances, the manager certifies the amounts which each bank owes to the associated banks or is entitled to receive from them.” — *New International Encyclopedia*.

Correspondent Collections and Settlements. The work of collecting and settling the items of deposit and collection that are claims against persons or banks located at a distance is not so readily accomplished, but through the coöperation of banks in the "correspondent bank system," the task is reduced to a periodic settlement of balances. By this means a claim presented to a bank at one point is charged to the amount of a correspondent bank located near the point where the claim is due, the correspondent bank assuming the work of collecting the claim. •

To illustrate this process, let us suppose that a person living at Williamsport, Pennsylvania, who deposits in the First National Bank of that town, sends his check to another person residing in Waltham, Massachusetts, in payment of a bill. The latter will deposit the check in the Waltham National Bank and receive credit for the amount of the check. The Waltham National Bank may send the check to the First National Bank of Boston, which will give the Waltham bank credit for the amount. The First National Bank of Boston will then probably forward the claim to a bank in Philadelphia, say the Girard National Bank. This bank will give the Boston bank credit and charge the amount against the First National Bank of Williamsport, which has an account for such purposes with the Girard National Bank. Banks generally collect by the most advantageous route, and frequently a check or a draft may pass through a large number of banks before it is presented for settlement at the point where it is due and is charged against the account of the customer who drew it.

Collection Charges. From the above description, it may readily be seen that banks suffer inconvenience and expense by the deposit of widely distributed claims, as well as a loss

of interest on the deposit while the items are in process of collection. For this reason banks frequently make a **collection charge** of not less than ten cents per item or one tenth of one per cent upon the total amount of the deposit for collection.

QUESTIONS AND EXERCISES

1. In collecting a check on a bank at some distant point, why is a roundabout route frequently chosen?
2. Why is the city of New York the greatest clearing center in the country?
3. In what way do Federal reserve banks facilitate settlement among banks?
4. Find out how your bank collects the amounts called for by the checks that you deposit.
5. What should you do if a check which you deposited is returned to you, marked "No funds"?

XIII. COMMERCIAL BANK LOANS AND DISCOUNTS

Borrowing from a Commercial Bank. One of the primary functions of a commercial bank is the lending of funds on interest for short periods of time. The length of time for which loans are made varies. Loans known as **call loans** are payable "on demand," while **time loans** are usually for periods of thirty days, sixty days, or ninety days. Such loans classify themselves into two groups:

First, **accommodation loans** are loans made to a customer of the bank on the strength of personal security. This may be represented merely by the promissory note of the customer, if his credit satisfies the bank, or by such a note supported by the indorsement of some one approved by

the bank, who thereby becomes responsible for its payment in case the maker fails to pay it. The former is known at the bank as **single-name paper**, while the latter is called **two-name** or **indorsed paper**.

The extent to which a bank will make loans upon the security of single-name paper is determined by the credit responsibility of the borrower and by his average monthly account balance. Usually a **margin** of 20% must be left on deposit.

The form of note which the borrower must sign is generally as follows:

\$5000 ⁰⁰	Detroit, Mich., July 1, 1918
Thirty days after date we promise to pay to the order	
of -----	Ourselfs -----
Five thousand ⁰⁰ -----	Dollars
At	The Merchants' Bank, Detroit, Mich.
Value received	The Wilson Parker Company
No. 18	Due July 31, 1918
(Residence or Place of Business)	
16 Rivard Street, Detroit, Mich.	

This note must be indorsed by The Wilson Parker Company. It then becomes negotiable, and the bank can dispose of it, if it pleases, to some other bank or person.

In the case of two-name or indorsed paper the note used is exactly like the preceding one except that the indorsement of the second person (say James B. White) is added to that of the maker of the note.

If the note on page 59 were of this type, the indorsement would be as follows :

The Wilson Parker Company
James B. White

Second, **collateral loans** are loans made to borrowers who deposit, as security for the payment of the loan, stocks, bonds, or other evidences of debt, called **collateral**, or more commonly **securities**. Borrowing from the bank in this way involves signing a note which includes, in addition to the usual promise to pay, a supplementary agreement setting forth the right of the bank to sell the collateral on the non-performance of the promise contained in the agreement. Some collateral notes promise to pay "on demand" instead of at a specified time.

The following is a form of the collateral note :

\$ 5000⁰⁰

Chicago, Ill., March 1, 1918

On the *first* day of *May* next after date, for VALUE RECEIVED, we promise to pay to **The Traders' Bank** or order, at said Bank *five thousand*⁰⁰ ~~~~~ Dollars with interest at *6%*, having deposited with said Bank as collateral security for the payment of this note,

(Here follows a list of the securities and the agreement for the sale of the collateral, described above.)

The National Iron Company

It is customary among banks, in making loans that run for a definite time, to deduct the interest for the period at

the beginning of the period, or when the loan is made. In making **call loans**, that is, those payable on demand, interest is payable at least every three months.

Discounting Commercial Paper, or Time Notes and Drafts. As many transactions in the business world are settled for the time being by notes or by accepted drafts, commercial banks find a profitable field of business in buying such commercial paper. They remunerate themselves by appropriating the interest on the amount of the paper for the period until it is mature and payable. This practice is known as "discounting commercial paper." The **discount** is simply the interest on the note or the draft from the day on which it is dated to the day on which it is payable. By this means funds that would otherwise be tied up until the maturity of the notes or drafts are made available at once to the holders of the instruments, with no greater cost than a sacrifice of interest for the period during which the instruments have yet to run.

QUESTIONS AND EXERCISES

1. Find out upon what conditions a commercial bank in your neighborhood will lend money to its depositors.
2. Assume that you wish to borrow \$800 on your \$1000 Liberty Bond. What steps must you take?
3. Examine a collateral note and find out how it differs from a simple promissory note.
4. If a merchant gives a bank his 90-day note for \$6000 when the rate of discount is 5%, what amount will the bank place to his credit?
5. Find out the meaning of "single-name paper" and "two-name paper" and under what circumstances each may be used as security for a loan.

XIV. SAVINGS BANKS

Nature and Kinds of Savings Banks. One of the most important means of building up individual credit is by saving a part of current income, thereby providing a surplus from which to meet obligations when due. A savings bank is an institution that receives on deposit small amounts of savings and provides for investing them in a prescribed manner. Some institutions take on deposit any sum from five cents to three thousand dollars, while others will not take less than one dollar at a time nor more than five hundred dollars in total amount. At the present time in the United States, these banks may be classified in three groups: (1) postal savings banks; (2) mutual or trustee savings banks and fund societies; and (3) joint stock savings banks, including the savings bank departments of trust companies, state banks, and national banks.

Postal Savings Banks. In June, 1910, Congress authorized the Federal Post Office Department to conduct a savings-bank business. The act which granted this authority created a board of trustees composed of the Postmaster General, the Secretary of the Treasury, and the Attorney General. An account may be opened in a postal savings bank with one dollar, but total deposits are limited to \$1000, exclusive of accumulated interest. Provision is made for savings of less than one dollar through the sale of postal savings stamps in the denomination of ten cents, which are pasted to a card until the dollar amount is reached. As a record of deposit, a certificate of deposit is issued to cover the amount of the deposit. Under the law creating the postal savings banks, the rate of interest on deposits is limited to 2%, but provision is made that deposits

may be exchanged for United States bonds in denominations of \$20, \$100, and \$500, paying $2\frac{1}{2}\%$ interest. Persons of ten years and over are allowed to open an account in their own name.

Mutual and Joint Stock Savings Banks. Mutual or trustee savings banks and savings fund societies originated in the efforts of public-spirited men and women to better the conditions of the working classes by encouraging them to save, or in the desire of wage earners themselves to improve their condition by saving. This was particularly necessary during the latter part of the eighteenth century and the early part of the nineteenth century, when the lot of the wage earner was not only a hard one but one that was rendered still more acute by the absence of any means of caring for his savings.

The joint stock banks developed during the latter part of the nineteenth century as enterprises to share in the profits arising from the investment of capital accumulated by saving. In organization and practice, the mutual savings bank may be said to be typical, but in one important respect it differs from the joint stock bank; that is, all profits derived from its operation go to the advantage of the depositors, while in the operation of a joint stock savings bank, only a fixed interest goes to the depositor, the balance of profit, if any, remaining with the bank.

Organization of Mutual and Joint Stock Savings Banks. The control of a mutual savings bank is generally placed in the hands of a board of trustees consisting of men of high character and financial ability, who serve without pay. The management of a joint stock savings bank is vested in a board of directors selected by the stockholders furnishing the preliminary capital. Both boards choose the

necessary officers, who usually consist of a president, a treasurer, and a secretary, with assistants. The president is the executive officer and exercises general supervision over the affairs of the institution. The secretary attends to the correspondence, acts as general auditor and accountant of all the departments, and keeps the minutes and records of the board. The treasurer makes the investments, has charge of the cash, deposits funds in other banks and draws checks upon them, collects interest on investments and loans, makes payments for the bank, receives payments of matured obligations, receives applications for loans, and otherwise performs the duties of the bank's financial officer. The important subordinate employees are the receiving teller, who receives deposits; the paying teller, who makes payments to the depositors; and the bookkeepers, who keep the accounts of the depositors.

Opening a Savings Bank Account. When you open a savings bank account, the receiving teller or the clerk having charge of new accounts will ask for your name, residence,

CARD TO BE FILLED OUT IN OPENING A SAVINGS ACCOUNT

I, ---, agree to conform to the by-laws and regulations of the Cleveland Saving Fund Society and any amendments thereto.	
----- Write name in full	
Residence-----	
Occupation-----	Father's name----- Wife's name----- Husband's name-----
Maiden name-----	Birthplace-----
Opened-----	Closed-----

place of birth, the names of your parents, and other facts useful in establishing your identity, together with a copy of your signature. After this preliminary requirement is satisfied, he will give you a pass book bearing a number as well as your name. When you deposit, the receiving teller will ask you to state the amount you wish to deposit and will direct you to sign a slip on which this amount is entered. After taking your money, he will enter the amount in your pass book on the left side and also upon the bank's deposit book. In a large bank the latter is done by another clerk.

Withdrawing Money from a Savings Bank. When you wish to withdraw money from your account at a savings bank, present your pass book at the paying teller's window.

RECEIPT

\$45 ⁰⁰	Account No. 6345	Date May 15, 1918
		of notice
Received, Cleveland, Ohio,	May 25,	1918
from the	Cleveland Saving Fund Society	
Forty-five ⁰⁰	Dollars	
of moneys standing to credit of the above account.		
----- Mary Fenton		

and name the sum you desire to withdraw. You will usually be asked to answer some questions serving to identify you, and, unless you are well known to the teller, reference will be made to the bank's records to prove your identity. The amount requested will be written upon a receipt form which you will be asked to sign, and the date and the amount of your withdrawal will also be entered upon the

right-hand page of your pass book, which will then be returned to you. You will thereupon be called by name and requested to state the amount for which you asked. Sometimes the paying of the money is delayed for a stipulated period, usually ten days or two weeks, as a protection to the bank against unforeseen and unexpectedly large withdrawals, but usually payment is made at the time of the request.

Withdrawing Money from a Savings Bank at a Distance.

For the convenience of customers who may be located too far away to appear personally at the savings bank to withdraw the money which they desire, many savings institutions make use of a witnessed order similar to the one shown below. Upon the receipt of this properly filled out and witnessed, the funds requested by the order are sent to the customer by check or by bank draft.

ORDER TO BE SIGNED IN WITHDRAWING MONEY AT A
DISTANCE

The deposit book, unless in the Society's keeping, must accompany this order

\$500⁰⁰

Account No. 5329

Dec 16, 1918

The Cleveland Saving Fund Society

Pay to Frank Turner or bearer

Five hundred ⁰⁰ _____ Dollars

_____ of moneys standing to the credit of above account.

Witness --- Charles Gray --- Name --- Mary Gray ---

Residence Marion, Ohio Residence Marion, Ohio

Interest on a Savings Bank Account. The important service of a savings bank is taking small savings on deposit and investing them for the benefit of the depositor. Out of the income derived from the investments, the trustees of a mutual savings bank distribute annually or semiannually the profits in the form of dividends. The annual dividend rate of such banks varies generally from 3 % to 4 %. In the case of joint stock savings banks, the interest provided is not subject to much variation in rate. Interest is allowed on a balance running for a certain complete period, as one month, three months, or six months. Any deposit made after the beginning of the period, or any withdrawal before its close, is excluded.

Borrowing from a Savings Bank. As a great many deposits are made every day, savings institutions usually have large amounts of funds to invest, and are therefore willing to lend to borrowers who can furnish suitable security or assurance that the loan will be paid when due. The time of such loans varies, but it is usually from three to five years; and the security required of the borrower is a mortgage on real estate, the value of which must be considerably more than the amount lent.

QUESTIONS AND EXERCISES

1. Why is saving important not only from the standpoint of the individual but also from the point of view of the industries of the nation?
2. Why does the Post Office Department form a suitable channel for conducting a savings bank business?
3. What steps must be taken to become a depositor in a postal savings bank?

4. Find out what difference there is in the organization, the administration, and the purpose of a mutual and of a joint stock savings bank.
5. What kinds of loans may a savings bank make under the laws of your state?

XV. COÖPERATIVE BANKS AND BUILDING AND LOAN ASSOCIATIONS

Nature and Function. It has been seen that the savings bank affords the wage earner an opportunity to invest savings safely until they may be used otherwise to greater advantage. A few decades after savings institutions originated, associations were formed for the purpose of advancing to the wage earner funds for his immediate use on the security of his future savings. Such associations became known as coöperative banks, building and loan associations, mutual loan associations, savings and loan associations, savings fund and loan associations, and coöperative savings and loan associations. No matter under what name they appeared, these institutions were organized to furnish a safe means for the accumulation and the investment of savings and to afford opportunities to secure funds at reasonable rates for immediate use, particularly for the purchase or improvement of houses or other real property.

Organization of a Building and Loan Association. Generally speaking, membership is the only avenue by which the opportunities afforded by the building and loan association may be enjoyed, and this rests upon the possession of at least one share of stock of the association. The member agrees to pay into the treasury of the association each month a certain sum, usually one dollar for each share, until

the aggregate amount paid, increased by the profits coming from investment of the funds paid in, equals the matured value of the share, which, in most instances, is two hundred dollars.

Prior to the maturing of the share, it has two values. One is the **paid-in value**, or the amount of actual payments that have been made; the other, the **holding or book value**, which is the amount of the payments made plus the profits that have accrued. If a shareholder pays one dollar each month, it would require two hundred months, or sixteen and two thirds years, to pay for a share; but as money paid in is immediately invested and the interest received is also loaned out, the shareholder will have the advantage of compound interest, and the holding or book value of his share will amount to two hundred dollars in a shorter time, or approximately in twelve and a half years.

New members are admitted at regular intervals, usually every six months, and the shares issued at each time constitute a **series**.

For organization and administrative purposes, the members, or shareholders, elect a board of directors. This board selects a president, a vice president, a treasurer, a secretary, a solicitor, and various committees, including the important property committee, for conducting the business of the association. A stated meeting of the association takes place once a month for the receipt of dues on shares, for the making of loans, and for the settlement of other business pertaining to the association.

Membership Advantages in Building and Loan Associations. If a person is in a position to save ten dollars a month out of current earnings, a profitable way to invest

this amount will be to take ten shares of building and loan stock. This would require the payment of ten dollars a month as premiums, or dues, on shares. These payments, according to the experience of carefully managed building and loan associations, can be invested so as to amount to two hundred dollars a share in about twelve and a half years. Or, if the person has a suitable amount saved and desires either to build or to buy a property, the amount saved may be used as part payment on the property, and a given number of shares of building and loan stock may be taken out to cover the remainder of the value of the property. This may then be borrowed in funds from the building and loan association on the security of a mortgage against the property in favor of the association. The amount of this mortgage can be satisfied by monthly payments of premiums and interest on the mortgage until the shares mature, at which time the mortgage is surrendered by the building and loan association in settlement of the matured shares, and the property holder receives a clear title to his property.

Borrowing from a Building and Loan Association. Among building and loan associations many plans have been adopted for making loans to members. A few lend funds to members at a fixed rate of interest in order of application or by lot. In most cases, however, the loanable funds are put up at auction and sold to the highest bidder, either upon the basis of an advance of a definite amount of interest on the loan, or of an advance of premium payments on the stock. In both instances, the association obtains the advantage of additions to its loanable capital in advance. In general, while various as to details, the plans for making loans are as follows :

(1) A shareholder may borrow not to exceed the par value of his stock if he can give satisfactory security for the loan.

(2) If there is a limited amount of funds to be loaned and there are several prospective borrowers, the funds are loaned to the one who offers in addition to the regular interest and dues the highest bonus and premiums.

(3) The borrower is required to pay monthly interest on his loan in addition to the dues on his stock.

(4) The stock at maturity becomes the property of the association and extinguishes the principal of the loan.

Security for Loans. From the members, or shareholders, two classes of security are acceptable:

(1) A collateral deposit of stock in the association, which usually entitles the borrower to a loan of funds equal to seventy-five per cent of the paid-in value of the stock.

(2) A mortgage lien on the property to be improved.

Discontinuance of Membership. Discontinuance of membership in a building and loan association may take place regularly at the end of the period of time necessary for maturing the value of the shares upon which the membership rests, or irregularly by premature withdrawal from the association. When the periodical dues paid, with the profits earned, amount to the ultimate or maturing value of the shares, then the member, if the shares have not been pledged for loans, is entitled to receive the value in cash. If pledges for loans equal the amount of the maturing value, he is entitled to the cancellation of the loan; or if the loans do not equal the amount of the maturing value, he is entitled to receive in cash the difference between the amount of the loans and the maturing value of the shares.

FORM OF NOTE USED IN BORROWING ON BUILDING LOAN SHARES

No. _____ Boston, Mass.,-----191
\$ -----

One day after date I promise to pay to the order of the

Union Building & Loan Association

-----Dollars
with interest at six per cent per annum, payable monthly on the
----- of each month at-----
without defalcation, for value received, having assigned herewith my
----- shares of the capital stock of the said Association as col-
lateral, as required by the By-laws of said Association, which I authorize
the holder of this note upon a default in payment of said debt or interest
thereon, in the manner required by the By-laws of the said Association,
or upon non-payment of any of the monthly payments due on said stock,
to sell either at public or private sale without demanding payment of
this note or to cancel at its then cancellation value, without notice to
me, and to apply the proceeds, or as much thereof as may be necessary,
to the payment of this note or the balance which may then be due
thereon, with all interest, premiums, penalties, and necessary expenses
and charges, holding me responsible for any deficiency, or refunding to
me my balance. And I further authorize the secretary of the said
Association to transfer to the Association my shares of stock of the
-----series, constituting him my true and lawful attorney for these
purposes.

Witness, _____ Name ----- Seal
Address--- -----

QUESTIONS AND EXERCISES

1. Why is it good business practice to be a member of a building and loan association as well as a depositor in both a commercial bank and a savings bank?

2. Ascertain the names of several building and loan associations in your neighborhood, and find out under what conditions they assist members in buying houses.
3. Get a copy of the by-laws of a building and loan association and see under what conditions the association is permitted to lend to its members on the security of shareholdings.
4. Why is it a disadvantage to a building and loan association to permit members to withdraw under very easy conditions?
5. Find out under what circumstances a building and loan membership is said to "carry itself."

XVI. PRIVATE BANKS

Field of Activity. While the private banker has not been superseded by the highly developed banking institutions of the present day, he has been compelled to devote himself to special fields of banking. Private banking houses of to-day give particular attention to the collection and settlement of claims arising in foreign trade, to the lending of funds, to the buying and selling of stocks, bonds, and other securities, and to the transfer of funds from one country to another. The first three fields need not be considered at length here. The last, however, is of importance because of its close relation to the needs of the traveler; for one of the imperative requisites in going from one country to another is a ready supply of funds of the country in which the traveler finds himself. Private banking houses endeavor to provide for this need in several ways.

Circular Letter of Credit. Among the means provided by private banking houses to enable a traveler to secure

CIRCULAR LETTER OF CREDIT

No. -----

Addressed to the Correspondents
of

Fiske, Brown, and Wells

New York, U. S. A.,-----1918

Gentlemen :

We beg to introduce and commend to your kind attention
Mr. -----, to whom you
will please furnish funds in sums as required up to the aggregate
amount of ----- Pounds Sterling against -----
sight drafts on Paris Bank, Ltd., London, each draft to be plainly
marked as "drawn under F. B. and W.'s letter of credit number
-----"

We request you to buy such drafts at the rate at which you purchase
demand drafts on London, deducting your charges, if any, and we en-
gage that these drafts will meet due honor in London if negotiated not
later than -----1919, under the condition that
the amounts thus negotiated have been inscribed on the back of this
letter. The letter itself must be attached to the draft which exhausts
the credit.

Please see to it that the drafts are signed in your presence, and care-
fully compare the signature with the one below. We are, Gentlemen,
your obedient servants.

(Holder's signature)

funds in a foreign country is the **circular letter of credit**. This introduces the holder to foreign correspondent banks of the banking house issuing the letter, certifies that he is authorized to draw upon its agents at specified points to the amount stated in the letter, and requests that his drafts be paid or honored. His signature is written at the

foot of the letter, and sometimes a personal description is given to facilitate identification. A list of the agents of the banking house is contained on a separate sheet. Whenever a draft is drawn, it must be signed in the presence of the representative of the agent by whom it is paid. On the back of the first sheet of the letter of credit an indorsement

SECOND PAGE OF LETTER OF CREDIT

Indorsements once made hereon of payments must be allowed to remain without alteration or erasure; care should therefore be taken to understand exactly about payments desired before inscribing below.

On the payment of any sum exhausting this credit, this letter must be surrendered by the holder and attached by the banker negotiating the last draft to the said draft.

Date	By whom paid	Town	Am't. writing	Am't. fig.
5/8/18	Brown & Co.	London	Ten Pounds	£10

is made showing the date, the place, the amount, and the name of the agent making payment on account of drafts. The unused amount of such a letter will be returned in cash to the holder by the banking house that issued it.

International or Traveler's Checks. Another instrument issued by private banking houses to provide funds in a foreign country is the **international** or **traveler's check**. This is a draft or order drawn upon foreign correspondent banks to pay specified limited amounts or their equivalent in foreign currency.

The purchaser must write his name on the face of each check and again sign the order when he has it cashed, thus affording evidence of identity and genuineness.

FORM OF INTERNATIONAL OR TRAVELER'S CHECK

\$ <u>20.00</u> No. -----	Sold by ----- Date -----
Good within one year from date ----- when countersigned with the op- ----- posite signature (Holder's signature)	
Fiske, Brown, and Wells	
Through their correspondents will pay against this to the order of -----	
TWENTY <u>00</u> ----- Dollars or equivalent.	
----- FISKE, BROWN, AND WELLS	
Countersignature of holder which must correspond with above.	

QUESTIONS AND EXERCISES

1. To whom should you go in your locality to make financial arrangements for a trip in a foreign country?
2. Look up the monetary units of the important nations of the world, and ascertain their values in terms of the United States dollar.
3. Why does the foreign exchange value of monetary units vary from time to time?
4. What advantages and disadvantages does a letter of credit show in comparison with an international money order or traveler's check?
5. What conditions have enabled express and telegraph companies to conduct a large money order business?

PART III

INSURANCE

XVII. INSURANCE PRINCIPLES

Nature of Insurance. Under prevailing conditions in the world, life and property are subject to the risk of injury and destruction, and in consequence even contract obligations are exposed to uncertainties of fulfillment beyond human anticipation and control. When such injury or destruction occurs, the attendant loss is largely individual in effect. To offset this, various forms of insurance have been devised to protect the individual against what might be overwhelming loss. This is accomplished by a company or a group of individuals assuming the risks, distributing in various ways the incidental losses, and by this means indemnifying the sufferers.

In practice, **insurance** is a contract by which one party, called the **insurer**, agrees for a stipulated consideration or payment to indemnify another, called the **insured**, in the event of loss due to specified causes. The contract or agreement is known as the **policy**; the consideration or payment, as the **premium**.

In this broad meaning of the term "insurance," we may conceive contracts of indemnity to be made between parties, for loss due to many causes. Indeed,

such is the condition and the extent of the insurance business to-day that contracts of indemnity exist, ranging in character all the way from the common policies on life and property to the exceptional and unique insurance of a prima donna's voice or a famous pianist's fingers. Whatever has value to the possessor or to another dependent upon the possessor may become the basis of an insurance contract, provided that terms of consideration and indemnity can be agreed upon by the parties to the contract.

Of the many kinds of insurance in practice to-day — life, fire, marine, burglary, accident, health, boiler, plate-glass, tornado, credit — we need concern ourselves only with life, accident, and fire insurance, as the proper use of these types will sufficiently safeguard the interests of most individuals.

Scientific Basis of Insurance. Insurance rates are, as a rule, based on past experience as to the extent of losses occurring each year in a class of risk. If, for illustration, in life insurance, the number of selected lives is one thousand, and the average number of deaths each year for ten years is fifteen, each life being insured for one thousand dollars, there will be a claim on the insurance company or group for fifteen thousand dollars annually. Theoretically, therefore, the combined cost of insurance annually for those surviving is the amount which, if invested, will produce the sum of fifteen thousand dollars. To this charge must be added the costs of conducting the business and enough more to provide for its safe conduct. The primary idea of all insurance, therefore, is that relatively small amounts properly invested each year by a number of persons will make available relatively large amounts, falling due at irregular intervals with the maturing of

contracts through deaths, fires, or accidents, as the case may be.

Assessment and Level Premium Insurance. There are two kinds of premium collection: assessment, or natural, and level. In effect, **assessment insurance** is insurance paid for by annual and, naturally, variable assessments to meet maturing policies and expenses each year. The uncertainties of such insurance costs brought this plan into such disfavor that few important insurance companies continue to employ it for premium collections. Instead, the **level premium** plan is followed, by which a uniform premium is charged annually, without regard to the number of policies that become a claim against the company. It may happen under this plan that in a specific year the premium may be more than is requisite for the payment of actual losses. The excess is then accumulated in a reserve or surplus which, with interest, is relied upon to make up deficiencies of other years when the losses exceed expectations.

Types of Insurance Organizations. Generally speaking, insurance organizations may be classified in order of importance as stock companies, mutual companies, and straight mutual associations. From the standpoint of the insured, however, there is in practice little difference at the present time between stock companies and mutual companies. The theoretical difference between the two is now of historical rather than practical significance. Both issue policies under which, for a definite and uniform premium, they assume specific risks and agree to indemnify sufferers for such losses as occur under the contracts. Originally, in the mutual companies, the relation of the insured to the insurer was by no means so simple. In the early organiza-

tions of this type, the funds necessary to pay losses were raised by assessment after the losses had occurred. Under such a system neither profit nor loss could arise, and neither reserve nor surplus could be established, as the assessments were made to cover only losses and expenses.

Experience showed, however, that it was extremely difficult to raise the required amount in this way when losses were unusually heavy. At the present time, the general custom among all the important mutual insurance companies is to collect funds by premiums paid in advance on the level premium plan. Most of the older companies have accumulated large reserves or surpluses out of which they are able to pay exceptional losses. This to a great extent nullifies one of the original advantages held by stock companies in their possession of capital and reserves as security for policyholders.

On the other hand, many stock companies now compete with mutual companies in offering to policyholders the privilege of participating in the profits of the company, which originally belonged solely to the stockholders and oftentimes enabled mutual companies to offer better rates. This participation usually takes the form of reduced premiums, direct dividends, or, in the case of life insurance, earlier amortization, or maturity, of insurance policies.

Many straight mutual associations operating more or less on the assessment plan of premium collection exist in the United States in the form of county and town mutual companies, factory mutual companies, and, with various modifications, among fraternal organizations; but, with the exception of the factory mutual companies, they present limitations in management and resources that seriously handicap their usefulness. The success of factory mutual

associations as contrasted with the others is attributed chiefly to their policy of preventing fire losses rather than of merely paying claims.

QUESTIONS AND EXERCISES

1. A certain number of books are lost by members in every class. How may this loss be made good without imposing heavily upon the persons who lose the books?
2. As between insurance companies of national scope and those of local activity, which is to be preferred for insurance?
3. In the great fire disasters of San Francisco and Baltimore, certain fire insurance companies were unable to meet their obligations while others met them promptly. What scientific basis of insurance accounts for this?
4. Why is a constant inflow of new insurance essential to the success of an assessment insurance enterprise?
5. What kind of insurance companies or associations are writing insurance in your community?

XVIII. LIFE AND ACCIDENT INSURANCE

Life Insurance. In a broad sense, life insurance is divided into two fields—ordinary life or standard insurance, and industrial insurance. The distinguishing features of these two kinds of life insurance are as follows:

Ordinary life insurance began in the United States early in the nineteenth century, and was intended for the head of the family only, who is insured for a relatively

large amount, one thousand dollars and upwards. **Industrial insurance** in this country is of recent origin (1875) and is designed for every member of the family, who may be insured for small amounts, generally from ten dollars to five hundred dollars. The former might therefore be called class insurance, and the latter mass insurance. The fundamental idea of industrial insurance is to provide for the expenses of burial and the cost of the last illness of every member of the family. It is called industrial insurance because the system is designed primarily to meet the needs of wage earners employed in the industries.

In ordinary life or standard insurance, the amount of insurance desired, say \$5000, is determined, and the premium or annual cost is adjusted to the unit amount. In industrial insurance the amount of insurance is adjusted to the unit premium; that is, the amount per week that it is desired to pay, say \$.20, is fixed, and this regulates the value of the policy.

Premiums in ordinary life or standard insurance are payable annually, semiannually, or quarterly at the office of the company. In industrial insurance they are collected weekly from the house of the insured by the agent of the company.

Mortality Tables. Out of the actual experience of American life insurance companies have grown **mortality tables**, which, starting with one hundred thousand people living at ten years of age, show the number dying each year, and hence the probability of death to each person each year throughout the course of the tables, to the ninety-fifth year. From these tables the cost of insurance to any person at any age within the range of the tables can be readily reckoned.

AMERICAN EXPERIENCE TABLE OF MORTALITY

This is the mortality table prescribed by statute in most of the states as the basis upon which the reserves of life insurance companies shall be computed:

Age	Number Living	Number Dying	Expectation of Life	Age	Number Living	Number Dying	Expectation of Life	Age	Number Living	Number Dying	Expectation of Life
10	100,000	749	48.72	39	78,862	756	28.90	68	43,133	2,243	9.47
11	99,251	746	48.08	40	78,106	765	28.18	69	40,890	2,321	8.97
12	98,505	743	47.45	41	77,341	774	27.45	70	38,560	2,391	8.48
13	97,762	740	46.80	42	76,567	785	26.72	71	36,178	2,448	8.00
14	97,022	737	46.16	43	75,782	797	26.00	72	33,730	2,487	7.55
15	96,285	735	45.50	44	74,985	812	25.27	73	31,243	2,505	7.11
16	95,550	732	44.85	45	74,173	828	24.54	74	28,738	2,501	6.68
17	94,818	729	44.19	46	73,345	848	23.81	75	26,237	2,476	6.27
18	94,089	727	43.53	47	72,497	870	23.08	76	23,761	2,431	5.88
19	93,362	725	42.87	48	71,627	896	22.36	77	21,330	2,360	5.49
20	92,637	723	42.20	49	70,731	927	21.63	78	18,961	2,291	5.11
21	91,914	722	41.53	50	69,804	962	20.91	79	16,670	2,196	4.74
22	91,192	721	40.85	51	68,842	1,001	20.20	80	14,474	2,091	4.39
23	90,471	720	40.17	52	67,841	1,044	19.49	81	12,383	1,964	4.05
24	89,751	719	39.49	53	66,797	1,091	18.79	82	10,419	1,816	3.71
25	89,032	718	38.81	54	65,706	1,143	18.09	83	8,603	1,648	3.39
26	88,314	718	38.12	55	64,563	1,199	17.40	84	6,955	1,470	3.08
27	87,596	718	37.43	56	63,364	1,260	16.72	85	5,485	1,292	2.77
28	86,878	718	36.73	57	62,104	1,325	16.05	86	4,193	1,114	2.47
29	86,160	719	36.03	58	60,779	1,394	15.39	87	3,079	933	2.18
30	85,441	720	35.33	59	59,385	1,468	14.74	88	2,146	744	1.91
31	84,721	721	34.63	60	57,917	1,546	14.10	89	1,402	555	1.66
32	84,000	723	33.92	61	56,371	1,628	13.47	90	847	385	1.42
33	83,277	726	33.21	62	54,743	1,713	12.86	91	462	246	1.19
34	82,551	729	32.50	63	53,030	1,800	12.26	92	216	137	.98
35	81,822	732	31.78	64	51,230	1,889	11.67	93	79	58	.80
36	81,090	737	31.07	65	49,341	1,980	11.10	94	21	18	.64
37	80,353	742	30.35	66	47,361	2,070	10.54	95	3	3	.50
38	79,611	749	29.62	67	45,291	2,158	10.00				

Preliminary Steps in Insurance. The first essential is to determine whether you are insurable; that is, whether you are in good health, as only healthy persons can be insured. Granted that your general health is good, you must make sure that you have no organic affection of lungs, heart, or kidneys, the organs principally tested by the insurance companies. A wise precaution before submitting

your case to the company's physician is to consult your family doctor on these points and get his judgment upon your insurable condition. It is a detriment to your future chances of insurance with other companies to be refused by the physician of any one company. If your own physician finds your physical condition satisfactory, the company's physician will probably pass you.

Having convinced yourself that you are a fit subject for insurance, you decide upon the amount of insurance that you desire, the kind of policy, and the person, called the **beneficiary**, to whom this amount is to be paid at your death. Before entering into an insurance contract with any company, ask to see a sample of the policy you want, and if you are unable to pass judgment upon every clause in the policy, consult some one in whose judgment you have confidence. A little care at this point may save you much disappointment later on. Many people are accepting policies which they do not understand and are carrying them under a misapprehension as to their most vital provisions. Remember that your contract with the company is the policy you accept, and do not depend upon the verbal understanding you have with the agent.

You are now ready to present yourself formally to the company, and do so in the form of an **application**. This requires you to state your age, your address, the kind of insurance you want, and the name of the beneficiary. It also asks questions about ages and causes of death of your parents and sometimes grandparents, your occupation, use of tobacco and alcoholic drinks, recent illnesses, whether you have had certain diseases, what other insurance you carry, if any, whether you have ever been refused by any other company, etc. Your answers to all these questions

become part of your contract with the company, and should be carefully made. Answers of vital consequence to the policy, that are later proved to have been untrue, may invalidate the contract.

If the medical examination and the application are satisfactory to the company, the policy will be prepared at once and placed in your hands. You are not bound to it, however, until you have paid the first premium.

Life Policies. Policy contracts of many kinds are offered by all companies to-day, but those deserving the consideration of the average person fall into three groups — whole-life, term, and endowment.

The **whole-life policy** represents insurance in its first and truest form. It is one that does not mature until the death of the insured. Premiums are based upon two methods of payment: either annually throughout life, the policy in this case being designated as **ordinary life**; or for a given period of years only — ten, fifteen, or twenty — in which case the policy is called a **limited payment life policy**. Ordinary life premiums are naturally the cheaper of the two, as they are indeed the cheapest of all premiums made for full insurance. This is the type of policy best suited to heads of families who wish to secure the maximum amount of protection for their dependents at minimum cost.

Term insurance, covering a fixed period, say ten years, is resorted to in periods of life when there is a special strain or extra hazard confronting the insured. This kind of insurance expires at the end of the period stipulated, without providing any subsequent return to the one insured.

Endowment insurance finds special favor with unmarried people and with newly married couples. Its distinguishing feature is that the face of the policy falls due at the

end of the endowment period, generally twenty years, and is then payable to the insured himself; and should he die meantime, it is payable to his beneficiary. It thus combines the element of investment with that of insurance. The premium rate of endowment policies is high because every policy of this kind becomes a claim upon the company at the end of the definite endowment term, if not before. On \$1000 of insurance, if the premium for ordinary life were \$30, for an endowment policy at the same age it would be \$50. This type of policy is to be specially recommended to young people. It is popular also with older people who have no one in particular dependent upon them, and who wish to lay by a regular sum which will guarantee the payment of their living expenses in case they outlive the endowment term, and will, at the same time, provide for their funeral expenses. It is neither the best kind of insurance nor the best kind of investment, but it fulfills both ends fairly well.

Selecting a Policy. The choice of a policy is of far more consequence than the choice of a company. All companies, whether they are stock or mutual companies, will agree to write and to sell practically the same kind of policies at about the same cost. The slight differences in premium charges in favor of one are offset by higher dividend payments and more liberal conditions in favor of the other. Increasingly stringent laws regulate the insurance funds wherever placed, so that on this score the insured is in safe hands with any one of the well-known companies. It should be remembered, too, that of the many kinds of insurance in effect, one is just as cheap or as dear as another. All premiums are calculated upon the probable length of life as indicated by the mortality tables, or upon the term of the

insurance, and a certain rate of interest which the investment of the premium must earn. The basis of charge is therefore identical, and a choice of policy is not to be made on the ground of relative cheapness, but rather on the purpose the insurance is to serve and on the privileges and restrictions of the policy itself. Broadly and theoretically, one policy is as good as another.

After deciding that you want a whole-life, ordinary life, limited payment, term, or endowment policy, choose one with these desirable features: (1) freedom from restrictions; (2) convenient premium payments; (3) liberal terms and non-forfeiture; (4) surrender and loan privileges; (5) exemption from claims of creditors; (6) privilege of changing beneficiary; (7) participation in the form of annual dividends; and (8) liberal convertibility privileges.

Annuity. An **annuity** is the annual income which the purchaser, called the **annuitant**, receives throughout life in return for a principal sum deposited with the insurance company. The annuity principle is the exact converse of the insurance principle. In insurance, as we have seen, the company, in consideration of a small annual premium paid by a man throughout life, agrees to pay a large sum at his death; in the annuity, in consideration of a large sum paid to the company at once, the company agrees to pay a small sum, called the annuity, each year throughout life. This principal sum is sunk with the company, and if after the first annuity is paid the annuitant should die, the company is entitled to retain the balance; just as, on the other hand, the company stands ready to pay the face of a life policy if death occurs immediately after the first premium has been paid.

As the amount of the annuity is based on the probable number of payments to be made, and as this depends on the probable length of the annuitant's life, the mortality tables are again necessary to the calculations. Good health and a long life are as desirable and as vital, in this contract, to the annuitant as they are in the insurance contract to the company insuring.

The annuity contract is one to be recommended to those who wish to make a profitable and safe investment of a principal sum, either for themselves or for others dependent on them. The annuity is naturally considerably greater than the income from other investments, since it is paid only throughout life and at death the principal becomes the property of the company. Money deposited in savings institutions or invested in stocks, bonds, or mortgages yields a smaller yearly income; but the principal is ultimately returned to the investor. The rate of annuity income depends, of course, upon the age at which the annuity is bought. At twenty-five years of age \$1000 would assure an annuity of \$50 for life, and at fifty years an annuity of \$70. The same sum placed with a savings bank would yield an interest of from three to four per cent, or \$40 a year at most.

Accident Insurance. Persons who travel much or whose work or business tends to expose them to injury or death by accident, should protect themselves and their families by taking out accident insurance. So extensive is the business in this department of insurance that many companies devote themselves entirely to the writing of accident policies. As a policy of this kind becomes a claim upon the company only in case of injury or death due to accident, and as an accident is by no means so sure to befall a man as is death,

the cost is very small as compared to life insurance. A man of thirty might pay an annual premium of \$30 for an ordinary life policy of \$1000, and a premium of only \$5 to \$10 for an accident policy of the same amount. Such a policy would entitle his estate to \$1000 if he met death by accident, and, if he suffered injury from accident, would pay him an amount varying according to the seriousness of the injury.

In view of the relative cheapness of accident insurance and of the increasing risk of accidents in our daily movements, an accident policy is a precautionary insurance measure of which men should avail themselves without hesitation.

QUESTIONS AND EXERCISES

1. Which type of insurance — industrial or standard life — is most convenient for a wage earner, with an income of \$15 a week and a dependent family of wife and three children? Why?
2. Are the premiums charged by insurance companies at present in strict accord with actual loss experience? If not, why not?
3. Get three or four standard life insurance policies and compare them, in order to see how they differ and what advantages their provisions offer to the insured.
4. Why is a limited payment insurance policy more suitable for a man elected or appointed to office than for a man in an established business or profession?
5. A man comes into possession of \$10,000 and decides to invest it in insurance in the interest of his son and daughter. What type of insurance is it advisable for him to take? Give reasons.

XIX. FIRE INSURANCE

Nature of Fire Insurance. Second only to life insurance in the extent of its application to mankind generally, and first in importance to business enterprise, is fire insurance. Fire insurance may be defined as a contract to indemnify the insured for actual destruction of certain specified property by fire. Too much emphasis cannot be placed upon the words "to indemnify the insured for actual destruction." The one thing which fire insurance must not result in is a profit to the insured. Therefore, no matter what value is stated in an ordinary fire insurance policy, the insurer is not liable for more than the actual value of the property destroyed.

As property deteriorates from daily use and as a frequent revision of values is impractical, the value contemplated is that which the property represents at the time of destruction. The principle of fire insurance is protection not of the property said to be insured, but protection to its owner against loss by fire. To go beyond such indemnification for actual loss would be to admit the possibility of profit and to invite the intentional firing of properties for profit, a contingency wholly at variance with the insurance idea.

Economy of Fire Insurance. Destruction of property by fire is inevitable. The annual loss in the United States alone by this agency is in the neighborhood of \$200,000,000. Every property owner, therefore, should fortify himself in some way against loss due to the possible destruction of his property. He does this by paying into a common fund managed by an insurance company his pro rata share of the losses likely to occur to any property insured by the fund.

This pro rata payment is called the **fire insurance premium**, and represents in itself a relatively small annual expense to each contributor to the fund, who thus is a party to his own full insurance, as well as to that of every other contributor. Single-handed, no business man can afford to tie up sufficient of his capital to guarantee himself full protection from uncertain losses. In the collective principle of protection, however, there is business economy in joining with many others to safeguard each against almost certain failure due to wholesale destruction of property values by fire.

Fire Insurance Policies. The type of fire insurance policy in common use is what is called an open policy. An **open policy** is one which, while it insures up to the maximum of the amount written in the policy, agrees to pay only the amount of loss actually incurred. For instance, a policy insures a house for \$5000, and a fire destroys that house. If it can be shown that the house was worth only \$4000, the company is liable for that amount only.

Because of much dissatisfaction caused by contracts of this character, many states have enacted laws providing that when the insured building is totally destroyed by fire, the insurance company shall pay the full amount of the policy. Such a policy is said to be **valued**. The valued policies are opposed to the interests both of the insurer and the insured. In the open policies the owner of property is generally allowed to name his own value, and the company protects itself by limiting its liability to actual loss, making a correspondingly low premium. In the case of valued policies, if the company is to protect itself, it must carefully examine each property to be insured, and the expense of this examination is

added to the premium, which without this is high because of the full risk assumed.

It is hardly necessary to add that the policyholder must have an insurable interest in the property. This means that he must have some right to or share in it, in his capacity as owner, as mortgagee, as executor or administrator, or as trustee.

Important Features of Standard Fire Insurance Policies. The standard policy, after mentioning the names of the parties to the contract, states the term of insurance and the amount of risk assumed, and gives a description of the property. Then follows the liability paragraph, which reads as follows :

“ This company is not liable beyond the actual value of the property at the time any loss or damage occurs, and the loss or damage shall be ascertained or estimated according to such actual cash value, with proper deduction for depreciation, however caused, and shall in no event exceed what it would cost the insured to repair or replace the same with material of like kind and quality. Said ascertainment or estimate shall be made by the insured and this company, or, if they differ, then by appraisers, as hereinafter provided ; and the amount of loss or damage having been thus determined, the sum for which this company is liable pursuant to this policy shall be payable sixty days after due notice, ascertainment, estimate, and satisfactory proof of the loss have been received by this company in accordance with the terms of this policy. It shall be optional, however, with this company to take all or any part of the articles at such ascertained or appraised value, and also to repair, rebuild, or replace the property lost or damaged with others of like kind and quality within a rea-

sonable time on giving notice within thirty days after the receipt of the proof herein required of its intention to do so; but there can be no abandonment to this company of the property described."

The terms of insurance explicitly state, it should be noticed, that the company insures against all "direct loss or damage by fire," and not against loss by any other cause. It should be added that "loss or damage by fire" holds the company liable for damage to property by water used in extinguishing fire in adjacent properties. Frequently judicial decision is necessary to determine what is "loss or damage by fire"; but companies generally stand ready to meet the losses incurred through fire either directly within the building or indirectly from other buildings, if due precaution has been taken to protect exposed property.

A vacant property, such as a house standing temporarily untenanted, is likely to nullify the company's liability if fire occurs during such vacancy, in cases where the terms of the policy expressly state that an occupied house is insured as described. Therefore, if circumstances require temporary unoccupancy of a house or building of any kind, notice should be given at once to the insurance company, and a special permit should be obtained. Such permits are often attached to the policies at the time when they are issued. In some states, the vacating of a building by a policyholder, without the consent of the company, works a complete forfeiture of the policy. In other states, forfeiture is only temporary, or during the time of vacancy, after which the policy is considered to revive itself, and if loss then occurs, the company remains liable.

There are numerous other vital elements in the standard policy that should be thoroughly understood by the in-

sured, but those above mentioned are most essential to common knowledge. The general admonition to read all contracts to which one is a party applies with special force to the fire insurance policy.

Fire Insurance Policy Terms and Rates. Property insurance contracts run for short terms, generally one to five years. The old-style perpetual policy issued on residences has become obsolete. The changing conditions surrounding a building and affecting it as an insurance risk, as well as the inevitable deterioration, make it necessary and desirable to limit such contracts to very brief terms. Ease and simplicity of renewal arrangements contribute further to the expediency of the short-term policy. Short-term insurance also means lower unit rates, as it admits of more frequent observations and examinations of the property, and revision of rates up or down as hazards increase or diminish.

As compared with life insurance rates, the annual fire insurance premium of \$2 or \$5 on \$1000 of insurance is very low. It must be borne in mind, however, that every life insurance policy becomes a claim upon the company sometime, as every life must end; whereas every fire insurance policy does not necessarily become such a claim, because every building will not burn, the percentage being about one to thirty.

As a closing thought on fire insurance, it should be borne in mind that since the company is liable for actual loss only, since total destruction of property values is exceedingly rare, and since only about one in thirty policies becomes a claim upon the company, overvaluation and hence overinsurance of property are both unwise and uneconomical.

QUESTIONS AND EXERCISES

1. Explain why fire insurance rates for furniture in apartments are higher than in individual houses.
2. Make an investigation of your neighborhood to find out what variation there is in the fire insurance rates and what difference in the rates is due to variation in the use to which property is put.
3. A house with its contents is valued at \$8000. What amount of insurance is it advisable to place upon it?
4. Get several fire insurance policies and compare them to find out what differences they show.
5. In rural communities farmers have formed local mutual fire insurance associations. What disadvantages accompany this type of insurance?

PART IV

PROPERTY

XX. GENERAL PRINCIPLES

Nature of Property. There are two conceptions of the term **property**. Commonly it is used to designate the *objects* or *things* that may be owned; abstractly, and legally, it is used to designate the *right*, the *interest*, or the *estate*, which a person has in land and other things for his exclusive use and enjoyment. This twofold meaning often leads to confusion and therefore should be borne in mind. Furthermore, property is of two kinds — real and personal.

Real property consists of land and all things attached to it in a permanent way and intended for use in connection with the land. **Personal property** includes all other things; that is, those things which, generally speaking, are movable in character.

The term **estate** is used to designate the nature and the extent of interest one has in either real or personal property, and gives rise to the expressions **real estate** and **personal estate**.

In connection with the practical use of property there are two kinds of property rights — absolute and special. The owner of property is said to have an **absolute right** in it. On the other hand, one who rents, borrows, or in any other way comes into possession of property for some

particular use has only a **special property interest** in it. Such rights may be exercised to the exclusion of all others except those of the owner, who must, however, respect the special rights of the other person or party. In real estate, the owner is sometimes called the **freeholder** and the one who rents the property the **leaseholder**. **Title** to property, an important term from the legal standpoint, signifies a combination of all the elements that make for a just claim of exclusive ownership.

Transfer of Property. Transfer of the title to property may be by contract of sale or exchange, by will or by intestacy procedure, by forfeiture, by judgment of the court, or by bankruptcy. Use of property may be allowed by lease, or in trust by bailment. At the basis of the contract of sale and of the lease are the principles of contract law. Although it is not possible to treat these principles technically or exhaustively, the essentials of the typical contract obligations common to most people should be studied.

Meaning and Essentials of Contracts. A contract is an agreement enforceable by law. All agreements are not necessarily contracts; but every contract must represent an agreement. In order that an agreement may be thus enforceable, the law requires the fulfillment of certain conditions, the principal of which are the following:

(1) The agreement must be made by persons who are **legally competent** to make a contract. By this is meant all citizens of sound mind who have reached the legal age of twenty-one years. Some states include girls of eighteen years, or even younger, if married. Therefore so-called infants, or those under age, cannot be bound by contract; neither can convicted criminals be thus bound—for they

are deprived of the right to perform civil duties in the eyes of the law; nor lunatics nor drunkards, provided that their disabilities are established to be of such degree that they permanently unfit the persons for rational actions.

(2) There must be **mutual consent** to the agreement. If one or the other person is led into the agreement through misrepresentation, mistake, fraud, undue influence, or duress, he cannot be held responsible. By duress is meant the securing of the signature to an agreement by physical force or by threats of bodily injury.

(3) There must be a **consideration** underlying the agreement. For instance, A may promise to give B an automobile; but if it is a mere gift promise, without intention that B shall exchange money or value in any other form with A, the agreement is not binding upon A. As soon as B agrees to give in exchange one hundred dollars, which is a consideration, a valid contract is made.

(4) The act of agreement must be **within the law itself**. Two men might prepare an elaborate contract form setting out conditions on which they would rob a house and divide the spoils; but their agreement would not be binding, because burglary is illegal.

Kinds of Contracts. Contracts may be classified as (1) written, (2) verbal, and (3) implied. Written contracts are of two kinds: (a) ordinary, and (b) under seal.

The best and most binding contracts are the **written contracts**. Little is left to uncertainty or dispute as to the conditions of the agreement if they are reduced to writing and if the names of the parties to the agreement are attached.

An **ordinary** or **simple contract** is one thus committed to writing. The law prescribes no particular form, sim-

ply requiring that the agreement entered into be clearly stated and be in conformance with the four essentials noted above. Any such simple contract may be converted into a **contract under seal** by a slight change in the phraseology of the closing paragraph and by the additions of the seals to the names of the contracting parties. A seal may be represented by any of several legal devices or signs, such as a paster, the word "seal" or the letters "L. S." for *locus sigilli*, "the place of the seal." The laws of the states require that certain kinds of contracts be in writing and that certain of them be under seal; but as these laws are not uniform, it is necessary to consult the statutes of each state in order to avoid the drawing of an illegal agreement.

Generally speaking, the following contracts must be in writing:

(1) The promise of an executor or an administrator to pay out of his own estate that which is due from the estate he is administering.

(2) The promise to answer for the debt or default of another; that is, to be surety that another will pay his debts or discharge any other of his legal obligations.

(3) The promise to do anything, in consideration of marriage, as for example, to transfer property.

(4) Any contract for sale of lands, or any interest in or concerning lands (though in the United States sometimes leases for less than one year are excepted).

(5) Any contract which by its terms is not to be performed within the space of one year from the time of making it; but if it may be fully performed within one year it is not required to be in writing.

The law holds equally binding many kinds of agreements made by word of mouth. If the manager of a store engages

a clerk, verbally, at a salary of \$60 a month for one year, such agreement is enforceable by law. Important engagements of this kind should not be left, however, to verbal understanding, as memories are defective and constructions to be placed upon such understandings differ greatly.

Implied contracts are unconsciously entered into every day, but are none the less binding because of the lack of expressed agreement. For example, a taxicab rushing down the street is hailed by Mr. Smith, who jumps in and instructs the chauffeur as to his destination. No thought of contract enters Mr. Smith's mind; there has been no bargain with the chauffeur as to what the service is to cost; yet Mr. Smith, by his act of taking possession of the public conveyance, puts into effect a contract to which the law holds him bound. He cannot legally escape paying the regular charge for such service. The same is true of a man who enters a railway train without a ticket; he binds himself by implied contract to pay the railway's rate of fare for the distance he travels.

QUESTIONS AND EXERCISES

1. By what ways may one come into control of real and personal property?
2. Explain how property may be lost by forfeiture, by judgment of the court, and by bankruptcy.
3. Look up several special types of agreements against public policy in your locality, and therefore not subject to contract.
4. Give reasons why it is important that all agreements pertaining to real property should be put in writing.
5. What is a franchise, and how does it differ from other personal property?

XXI. LEASES

Leases. Of the four most common instruments growing out of transactions in real estate — the lease, the bill of sale, the deed, and the mortgage — the lease touches the lives of the greatest number of people; it should therefore be clearly understood in its main provisions. The lease is a written rent contract permitting one person, called the **tenant** or **lessee**, to use for a given period of time the property of another person, called the **landlord** or **lessor**.

Vital Provisions of Leases. Perhaps no document more frequently passes hands than the common house lease. Satisfaction in the operation of such leases can only be had after a thorough understanding between the landlord and the tenant. For instance, the tenant should know beyond question whether he or the landlord is to make general repairs other than those following damage by the elements. Unless agreement upon this point is expressed in the lease, the tenant in most states must keep up the property so far as wear and tear are incident to his occupancy, and must surrender the premises in as good condition as when received.

A second subject of consideration is the lessee's right to sublet the property for an unexpired portion of the term. On this point it may be borne in mind that standard leases do not give the tenant this right without the consent of the landlord. A third point to be emphasized is that rented buildings cannot be used legally for any other purpose than that specified in the contract. A building leased for residence purposes could not be converted into a store, or into a hotel, for instance, without the consent of the owner, which should be given in writing.

Property

LEASE

LEASE MADE AND EXECUTED between *Frank Powers*, of *Evansville, Ind.*, of the first part, and *John Henry*, of the same city, of the second part, this *first* day of *August* in the year *one thousand nine hundred and eighteen*.

In consideration of the rent and covenants hereinafter expressed, the said party of the first part has demised and leased, and does hereby demise and lease to the said party of the second part, the following premises, viz.

(Then follows description and location of property and terms of lease)-----

And the said party of the second part covenants that he will pay to the party of the first part for the use of the said premises the monthly rent of-----to be paid in advance. Provided that if said party of the second part shall fail to pay said rent, or any part thereof, when it becomes due, it is agreed that said party of the first part may sue for the same or reënter said premises, or resort to any legal remedy. The party of the second part covenants that at the expiration of said term he will surrender up said premises to the party of the first part in as good condition as now, necessary wear and damage by the elements excepted.

WITNESSES :

John Dwit
Adam Hill

Frank Powers
John Henry

Terms of Leases. Residence leases are usually written for from one to three years, with payments monthly in advance, and a notice of one to three months by either party if occupancy is to terminate at the end of the lease period. Otherwise the lease automatically extends itself from year to year, and occupancy may continue without the

formality of a new contract between the parties. Some residence leases are of the monthly type, in which case the property may be vacated at the end of any month, after notice of from two to four weeks has been given. Each party to a lease, as to all other property contracts, should possess a copy.

QUESTIONS AND EXERCISES

1. Upon what principle of common law is the lease contract based?
2. Assume that you own a store property in a good business block. Would it be to your advantage or disadvantage to have a long-term lease against it?
3. Get a copy of a lease on property in your neighborhood and ascertain its vital provisions.
4. If you lease a building for five years and desire to dispose of the lease after a period of three years, how may this be done?
5. Why are leases on small houses of shorter duration than upon large valuable properties?

XXII. BILLS OF SALE AND DEEDS

Bill of Sale. Every important transaction in real or personal property, especially when immediate delivery cannot be made, should be accompanied with a **bill of sale**, which may take any form that clearly expresses a transfer of interest in the property. The facts contained in the old and formal style of bill of sale shown in the first form on page 104 could be briefly and clearly and just as legally expressed in the second form.

BILLS OF SALE

KNOW ALL MEN BY THESE PRESENTS that I, William King, of the city of Lynchburg, of the county of Campbell, of the state of Virginia, for and in consideration of the sum of one thousand dollars (\$1000) lawful money of the United States, to me in hand paid, by George Carter, of the same place, the receipt whereof is hereby acknowledged, have bargained and sold, and by these presents do grant and convey unto the said George Carter, my 1918 Victor touring car.

In witness whereof, I have hereunto set my hand and seal, etc.

Lynchburg, Va., May 3, 1918

I have sold this day to George Carter of Lynchburg, Va., my 1918 Victor touring car for One Thousand Dollars (\$1000).

William King

Deed. In its general acceptance, a deed is a document that conveys title outright to real estate. The buyer of a property is not in full ownership of it until he has received a deed; and it is binding upon the seller to give a good deed, that is, to furnish a clear title to the purchaser. In the deed on page 105, note that the seller of the property is called the **grantor** and the buyer the **grantee**.

This deed is a **warranty deed** because it warrants and defends the grantee against any and all claims of other persons. Another form of conveyance by a **quitclaim deed** conveys only such title as the grantor possesses, leaving the grantee to take his chances as to any other possible claimants. Careful buyers of real property will always secure a warranty deed.

DEED

THIS INDENTURE, made the *fifth day of June* in the year of our Lord *one thousand nine hundred and eighteen*, between *Preston J. Kimball*, of the city of *New York*, merchant, and *Sarah Elizabeth*, his wife, of the one part, grantors, and *Frederick T. Devine*, of the same city, lawyer, of the other part, grantee,

WITNESSETH, that the grantors for and in consideration of the sum of *two thousand dollars (\$2000)*, lawful money of the United States of America, unto them well and truly paid by the grantee, the receipt whereof is hereby acknowledged, have granted, bargained, and sold, released and confirmed, and by these presents do grant, bargain, and sell, release and confirm unto the grantee, his heirs and assigns (here follows full description of property)-----

TO HAVE AND TO HOLD the said *lot or piece of ground above mentioned and described with the three-story brick messuage, or tenement thereon erected*, hereditaments, and premises hereby granted, or mentioned and intended so to be, with the appurtenances unto the grantee, his heirs and assigns, to and for the only proper use and behoof of the grantee, his heirs and assigns forever, and for the said *Preston J. Kimball* for himself, his heirs, executors, and administrators, does covenant, promise and agree, to and with the grantee, his heirs and assigns, by these presents, that he, the said *Preston J. Kimball*, and his heirs, all and singular, the hereditaments and premises hereby granted, or mentioned and intended to be so, with the appurtenances, unto the grantee, his heirs and assigns, against him the said *Preston J. Kimball*, and his heirs, and against all and every person whomsoever, lawfully claiming or to claim the same or any part thereof, by, from, or under him, them or any of them, shall and will warrant and forever defend.

IN WITNESS WHEREOF, the said parties to the presents have hereunto interchangeably set their hands and seals. Dated the day and year above written.

Preston J. Kimball

Sarah Elizabeth Kimball

Frederick T. Devine

Title Insurance. In order to secure a thorough investigation into the record of a property and to protect the purchaser against old claims that may arise after the property passes into his hands, it is customary to have the title insured by a title insurance company. Such companies trace the record of the property from its earliest history to the date of the last transfer, and they issue a title insurance policy, which protects the purchaser from loss due to a defective title, just as a fire insurance policy protects him from loss due to fire. Title insurance is not expensive and is so essential to security in the possession of real estate that it should be generally purchased.

Recording Deeds. A buyer of property is not fully secured in the possession of it until his deed has been recorded; that is, a copy entered in the deed book of the recorder of deeds in the county where the property is located. Until the transfer of title is thus entered, the records show ownership by the last grantor, and complications in title might arise, as the same property might be technically transferred to some one else.

QUESTIONS AND EXERCISES

1. Why is a bill of sale necessary for the transfer of real property and not always for personal property?
2. Why is it generally necessary for both husband and wife to agree to the sale of real property?
3. Look up the origin of the expressions: "deed in fee simple," "deed in escrow."
4. What claims constitute a fixed lien against real property under the laws of your state?
5. Why is title insurance more necessary in eastern than in the middle western states?

XXIII. MORTGAGES

Mortgages. An instrument not essential to property ownership, but quite common to it, is the mortgage, a document arising from the practice of borrowing money and giving temporary title to a portion of the property to secure the loan. Generally a promissory note passes between the parties to the loan, and the maker of such a note offers as security for its payment a right or title to as

MORTGAGE NOTE

\$2000⁰⁰ Salem, Mass., October 1, 1918
Five years after date I promise to pay
to the order of Samuel Clement, for value received,
Two thousand ⁰⁰ Dollars
with interest at the rate of 5%, interest payable
semiannually on January 1 and July 1.
This note is secured by mortgage on
real estate of even date herewith.

Martin Bellamy

much value in certain of his property as the loan represents. If the note is paid when due, the mortgage is canceled. If it is not paid then, or if meantime the interest is not paid as it accrues, the **mortgagee** (the person to whom temporary title is given) is empowered to institute foreclosure proceedings against the **mortgagor** (the person granting temporary title). Such suit at law involves the selling of the property mortgaged at public sale. The mortgagee is entitled to just enough of the proceeds of such sale to meet the mortgage debt and the expense of foreclosure and sale. The remainder reverts to the mortgagor.

Kinds of Mortgages. The following is an illustration of a **real estate mortgage** because it pledges real estate in security of the payment of the loan. Similarly personal property

REAL ESTATE MORTGAGE

THIS CONTRACT WITNESSETH THAT WHEREAS Martin Bellamy, of Salem, Mass., has this day executed his promissory note to Samuel Clement, of the same city, for the sum of two thousand dollars (\$2000) due five years from date, with interest at the rate of five per cent.

NOW, THEREFORE the said Martin Bellamy, and Marguerite, his wife, in order to secure the payment to Samuel Clement, or his assigns, of aforesaid promissory note for two thousand dollars, receipt of which is hereby acknowledged, have sold and conveyed to the said Samuel Clement..... (Here follows a description of the property conveyed.....)

IT IS AGREED that if the said Martin Bellamy shall pay to the said Samuel Clement, or his assigns, the sum promised in the said note according to the conditions thereof, then this contract shall be null and void, otherwise to remain in full force and effect.

IN WITNESS WHEREOF we have hereunto set our hands and seals this first day of October, 1918.

Martin Bellamy
Marguerite Bellamy

Witnesses:

F. C. Rockhart
A. M. Smith

may be offered as a loan security, in which case the instrument would be called a **chattel mortgage**.

Not infrequently several mortgages are given upon the same property. Unless otherwise provided, such mortgages have priority in the order of their creation. **First mortgages**, generally applicable to two thirds of the value of the property mortgaged, carry with them a lower rate of

interest charge than **second mortgages**, which give precedence to first mortgage liens in case of foreclosure.

Other Mortgage Facts. Like the deed, the mortgage should be recorded, because it affects the title to the property. If a mortgage is assigned to a second person as mortgagee, the assignment should also at once be recorded.

It will be observed that both in the deed and in the mortgage illustrations, the wife has entered into the granting of title. A husband cannot alone give a perfect title to real estate, as the wife is entitled to a dower in such property, and must consent to the necessary title transfer.

The mortgagee, in order to protect his interest in the property mortgaged, should require from the mortgagor a policy of fire insurance. Mortgages are commonly executed for a term of five years, rarely for less than three years. They automatically extend themselves if neither party desires to have the loan paid. By agreement money loaned on mortgage may be paid in installments, each payment being indorsed on the note. The unmortgaged interest in property constitutes the owner's **equity**.

QUESTIONS AND EXERCISES

1. How do the rights of a modern mortgage holder differ from those of earlier days?
2. Get a copy of a mortgage and analyze its provisions.
3. Should you prefer to hold a mortgage on a centrally located business property or on a house in a residential district of a city? Give reasons.
4. Find out whether money is loaned on second mortgage in your community.
5. What margin of security is usually required when a first mortgage is placed? Why?

XXIV. DISTRIBUTION OF PROPERTY ESTATES

Methods of Distribution. Property of deceased persons is disposed of in one of two ways:

(1) By statute law, which in the main provides fairly for the distribution of real estate and personal effects to the heirs or next of kin entitled to it.

(2) By will, an instrument by which a person disposes of his property as he sees fit, disregarding his natural heirs, if he pleases, except as the law may forbid. For instance, the law in most states guarantees to the wife a one-third interest for life in her husband's real estate and a one-third share of his personal property outright. This interest, therefore, he cannot will away.

In the case of small property interests and of normal family relations, there is no real need of making a will, as the impartial provisions of the state for the distribution of such property are generally satisfactory to all parties concerned. When there is no will, the owner of the property is said to die **intestate**. When the estate is large or when the owner of a small estate wishes to discriminate between certain of his heirs and next of kin, or wishes to bequeath property, or some of it, to persons outside of his family, a will is necessary.

How to Make a Will. Any person of sound mind and of legal age may make a will, disposing of both real and personal property. Persons under legal age, as boys under twenty-one or girls under eighteen, may by will bequeath personal property. A will should be in writing; but no set form is required, the law being satisfied with a clear expression of the wishes of the **testator**, as the person making

the will is called. The signature to the will must be witnessed by two persons, called **witnesses**. These persons need not, and generally do not, know the contents of the will. No beneficiary should be a witness, as it would invalidate his share of the bequest.

WILL

KNOW ALL MEN BY THESE PRESENTS THAT I, James Orr, of the city of Goldsboro, of the county of Wayne, of the state of North Carolina, being of sound mind and memory, do make, publish, and declare this my last will and testament, in manner following, that is, to say:

First: I direct that all my debts and funeral expenses shall be paid.

Second: I give and bequeath to my son William Orr, five thousand dollars (\$5000).

Third: I give and bequeath to the Orr Hospital of Goldsboro three thousand dollars (\$3000).

Fourth: I give, devise, and bequeath to my wife, Elizabeth Orr, all the rest, residue, and remainder of my estate, both real and personal, in lieu of her right of dower.

Lastly: I hereby appoint Henry Watson executor of this my last will and testament, hereby revoking all former wills by me made.

IN WITNESS WHEREOF, I have hereunto subscribed my name this tenth day of June in the year of our Lord one thousand nine hundred and eighteen.

James Orr

Witnesses: *John Lester*
Mary Bort

There are some unwritten wills, made by men in the service of the army and the navy, or by persons meeting with fatal accidents, who must make wills under conditions that will not admit of preparing written instruments. The validity of such wills rests upon the circumstances at-

tending their making and on the reliability of the witnesses. As a rule, only personal property may be disposed of in this manner.

Executing or Administering Wills. Upon the death of a property owner his will is read, in order to learn its provisions as to bequests and the name of the person or institution authorized to carry out or execute its provisions. If no person has been named as **executor**, or if the one so named refuses to act, the court, called the **probate court** in some states, and the **surrogate's court** or the **orphans' court** in others, must appoint some one to settle the estate. Such a person is known as the **administrator**. A woman appointed as executor or as administrator is sometimes called respectively an **executrix** or an **administratrix**.

It is the business of an executor to carry out faithfully the provisions of the will. The will usually states whether or not the executor must give a bond for the performance of his duties. An administrator, as a rule, takes charge of an estate of one who has died without leaving a will. He must give a bond for the faithful performance of his duties. The administrator's course of action generally runs thus: First, he determines the extent and the value of the property of the estate as well as of its debts. Then he pays the debts, consisting of expenses of last illness and burial, widow's dower, state debts, and claims of creditors. What remains, if anything, is then paid to the legal heirs. A careful accounting of every step in the settlement is made, and when the process of closing the estate is completed, a statement of the entire proceeding is made to the court. If such a statement is satisfactory, the court then discharges the administrator.

The Trust Company as an Executor or Administrator. Prior to the formation of the so-called trust companies, the settlement of estates was in the hands of individuals. The owner of the property about to make a will would select a member of his family or a friend as an executor, preferably a lawyer or a business man; and the court in appointing an administrator would do likewise, after consulting with the heirs. The inexperience and unreliability of individuals thus chosen furnished good ground to the trust company for offering its services in this capacity. Indeed, the trust company of to-day is equipped as no individual can be for the prompt, efficient, and economical administration of estates and trusts of all kinds. The complexity of its organization, its departments of legal advice, real estate, investments, banking, etc., afford it such facilities for conducting and closing estates that it is named with increasing frequency as executor or administrator.

Since more than one person may be selected as executor, it is well in drawing a will to choose a trust company and a member of the family, say a son. This guarantees a prompt and businesslike settlement of the estate, and at the same time provides for a family connection with its settlement, which is most desirable.

The Trust Company as Trustee. Among the various other powers granted to the trust company by state charters may be mentioned the following: (1) to act as trustee of property of any and all kinds left with it as guardian of minors; (2) to act as agent in the management of real property; (3) to act as receiver for defunct concerns of all kinds and those needing reorganization; (4) to act as depository for trust funds, securities, and other personal property.

The safe-deposit departments of trust companies render an increasingly large and valuable service to the public. Their vaults contain receptacles of all sizes that may be rented by the year at a moderate rate. There is little need to-day for the individual safe or strong box in the house; valuables of all kinds are more conveniently and safely cared for in the safety-deposit boxes provided by many banks as well as by trust companies.

The charges or commissions of the trust company are generally systematized and uniform; those of the personal agent are likely to be uncertain and uneven. The benefits of combining many processes in one organization and the resulting economies in administration have brought to the trust company much business of a banking and trust nature that formerly required for completion the services of several independent agencies.

QUESTIONS AND EXERCISES

1. A man having a \$100,000 estate dies intestate. What provisions are made by your state for the distribution of the estate among his wife and children?
2. What steps must be taken by an executor in closing an estate and what compensation is allowed him under the law?
3. A man without direct heirs dies without making a will. In what order are collateral heirs entitled to his property?
4. What disposition is made of an estate if no heirs can be found?
5. What legal idea is back of the practice of giving an heir only one dollar?

XXV. TAXATION

Nature of Taxation. Taxes are charges laid upon persons or property for the support of government. In the older days taxes were levied regularly and irregularly. When a ruler needed funds for his own expenditure or to carry on war, he simply levied additional taxes, in the form of duties on exports or on imports. These taxes were at the personal disposal of the ruler.

The struggle of modern nations for political freedom centers in no small degree around the problem of getting control of the public purse. Our own Revolutionary War was aroused by various acts of tyranny, but none more important than "taxation without representation." Since we now hold that "government derives its just powers from the consent of the governed," the assessment and levying of taxes is particularly the concern of the direct representatives of the people in our legislative assemblies.

Federal Taxes. The Federal government of the United States derives its revenues in the main from **indirect** taxes, that is to say, taxes levied not upon individuals but upon the production and the sale of articles. In ordinary times, the main revenue comes from customs and internal revenue.

Customs or duties are taxes paid on articles imported from abroad. The law that contains the schedules of articles of import, the classification of articles, and the rates of duties levied on them, is called a **tariff**. The purpose of our tariff on imported goods is twofold: first, to raise revenue; and second, to foster American industries by making it expensive to import articles that would compete in price with those made at home.

Customs or duties levied under the tariff system are

collected at customhouses at the principal ports, along the borders of Canada and Mexico, and at some large inland cities. When goods are purchased in foreign countries for importation into the United States, the importer must file with the United States consul at the foreign port from which they are to be shipped an **invoice** covering a list of the goods and their value at the place where they were manufactured or produced. The consul certifies the accuracy of the invoice and sends a copy of it to the collector of the port in the United States at which the goods are to be landed. Upon arrival at this port, the shipment is examined by the customs officers to see that it corresponds with the description in the invoice. If there is evidence of fraud, a heavy fine is imposed on the importer, or the goods are confiscated. If it is found that the goods are undervalued, their value is raised by the customs appraiser.

In personal traveling only a limited amount of goods purchased abroad may be brought to this country free of duty. Any concealment of goods from the customs inspectors, technically known as "smuggling," is punishable by a heavy fine and by confiscation of the goods, which are generally seized by the customhouse or Treasury officials and sold at public auction. Care should be taken, therefore, to make out an accurate **declaration**, or statement, of goods to be brought into the country, a copy of which must be handed to the customs officer in charge of inspection at the port of entry.

Another form of tax levied by the Federal government is the **income tax**. During the Civil War incomes from \$600 to \$5000 paid to the Federal government a tax of 5%; incomes above \$5000, a tax of 10%. In 1894 an effort to impose an income tax was nullified by a decision of the

Supreme Court of the United States that it was unconstitutional. In 1913, however, the demand for an income tax had become so great that the Sixteenth Amendment to the Constitution was adopted to provide for such a tax. Under this act the Federal government levied an income tax, which, as provided in the law of 1916, exempts \$3000 for every individual and \$4000 for every married couple or for the head of a family. Moreover, by the law of 1917, war income taxes were levied under which exemptions were fixed at \$1000 for single persons and \$2000 for married couples, or for heads of families, with an allowance of a

INCOME TAX RATES

			UNDER ACT OF		TOTAL INCOME TAX
			1916	1917	
Normal Tax					
On net incomes over exemptions			2%	2%	4%
Progressive Tax					
Over	\$5,000 to	\$7,500	none	1%	1%
	7,500	10,000	none	2%	2%
	10,000	12,500	none	3%	3%
	12,500	15,000	none	4%	4%
	15,000	20,000	none	5%	5%
	20,000	40,000	1%	7%	8%
	40,000	60,000	2%	10%	12%
	60,000	80,000	3%	14%	17%
	80,000	100,000	4%	18%	22%
	100,000	150,000	5%	22%	27%
	150,000	200,000	6%	25%	31%
	200,000	250,000	7%	30%	37%
	250,000	300,000	8%	34%	42%
	300,000	500,000	9%	37%	46%
	500,000	750,000	10%	40%	50%
	750,000	1,000,000	10%	45%	55%
	1,000,000	1,500,000	11%	50%	61%
	1,500,000	2,000,000	12%	50%	62%
	2,000,000		13%	50%	63%

special exemption of \$200 for each dependent child under eighteen years of age. These taxes were made progressive, that is, the rate was made higher as the amount of income increased. In the table on page 117 the tax rates of the Act of 1916 and those of the Act of 1917 must be added together to determine the total income tax.

In addition to the tariff duties and income taxes, the Federal government resorts to other forms of taxation. It levies upon articles raised or produced in the country, such as tobacco, liquor, and toilet articles. These taxes are termed **internal revenue taxes**, and are payable by stamps secured from the collector of internal revenue and affixed to the articles before sale.

Another minor source of Federal revenue is the progressive **tax on legacies**. The inheritance tax of 1916 exempts \$50,000 from an estate left by a resident of the United States. After debts and the \$50,000 are deducted, the rates on the net estate are as follows:

INHERITANCE TAX RATES

Over	\$50,000 to	\$150,000	.	.	.	2%
	150,000	250,000	.	.	.	3%
	250,000	450,000	.	.	.	4%
	450,000	1,000,000	.	.	.	5%
	1,000,000	2,000,000	.	.	.	6%
	2,000,000	3,000,000	.	.	.	7%
	3,000,000	4,000,000	.	.	.	8%
	4,000,000	5,000,000	.	.	.	9%
	5,000,000	.	.	.	.	10%

Under the emergency created by war conditions in 1917, new stamp taxes upon internal business were put into force, being made applicable to amusements, railroad tickets, telegraph and telephone messages, etc. Taxes were imposed also on important papers and transfers of prop-

erty, promissory notes, acceptances, and other evidences of debt. These are known as **document taxes**.

State and Local Taxes. The taxes levied by the different states and by their subdivisions vary with the states and with their needs. In the main, the taxes imposed are **direct**, that is, levied upon persons and property directly. Some states levy a tax upon personal property; some levy an income tax; many of them impose an inheritance tax upon property transferred by will or inherited under the law. A large number of states tax corporations, as well as professions, and such effects as mortgages, bank stocks, chattels, and machinery.

Counties and townships levy taxes upon land and various occupations. Cities levy taxes on real estate within the city limits as well as on personal property. They also impose a tax for water and light where the city owns the plants. Under the head of taxes imposed by local governments come **assessments** made upon property holders when a street is opened and paved or when other improvements are undertaken,—the government holding that the improvement has benefited the property and that therefore the beneficiary, or owner, should pay toward the betterment.

Direct taxes are levied either according to the sworn statements or returns which the taxpayer makes of the value of his individual property holdings, or according to the valuation of the taxable property made by a **board of assessors**. This board is supposed to be familiar with the value of property in different localities and to make an honest appraisal. The rate of taxation is established by the various governmental authorities according to their financial needs, after valuations are returned by the board

of assessors. A reasonable time is usually allowed to property owners in which to object to the valuation placed upon their property. When the taxes are unpaid for a specified time, the property is advertised for sale and the sheriff levies on it and sells it for the taxes. Under some circumstances, the property may be bought back within a limited time by payment of the taxes plus the cost of advertising, sale, and interest. The right to do this is called the **equity of redemption**.

To these forms of state and local taxes must be added the **poll tax** levied generally upon every citizen entitled to vote. This tax is a fixed sum, usually from fifty cents to a few dollars, and the uses to which it is devoted are various. Some states devote it solely to education; others to election expenses; while others regard it as part of the revenue of local government to be spent for local purposes.

It is largely by means of taxation that the Federal, state, and local governments pay the expenses for military, naval, police, fire, and health protection; for the erection and the maintenance of public buildings; for the construction and the operation of irrigation works; for river and harbor improvements; for agricultural experimentation; for education; and for the relief of the poor. It is consequently to the interest of every citizen to meet promptly and honestly the obligations imposed upon him by taxation.

QUESTIONS AND EXERCISES

1. What is the difference between a national policy of free trade and one of protection? Think out as many arguments in favor of each as possible.

2. Find out what the tariff rates are on several kinds of manufactured woolen goods, on a number of iron and steel products, and on sugar ; and determine who ultimately pays the tax.
3. Look up the assessed valuation of several real estate properties in your own immediate neighborhood and several in other vicinities. Compare the valuations with one another and with the market value of the properties, and endeavor to explain the variation.
4. What is the rate of real estate tax in your locality? How much must be paid on personal property, and how much inheritance tax is collected by your state?
5. What is meant by " single tax," and what are some of the arguments in its favor?

PART V

INVESTMENTS

XXVI. BOND INVESTMENTS

Investment and Speculation. Before considering the character and merits of securities, it would be well to agree upon the distinction between a security as an investment and a security as a speculation. Investment and speculation and the processes they signify are much confused in the popular mind.

Speculation, as defined in one of the accepted dictionaries, is "the act or practice of buying land, goods, shares, etc., in expectation of selling at a higher price, or of selling in expectation of repurchasing at a lower price." Another dictionary defines it as "trading on anticipated fluctuations in price, as distinguished from trading in which the profit expected is the difference between the retail and the wholesale prices, or the difference of price in different markets." Still another source defines speculation as "any business venture involving unusual risks for a chance of an unusually large gain or profit."

In these three definitions of speculation, three ideas predominate—risk of principal, desire for unusual profit in the transaction, and absence of income. Any transaction, therefore, in which these elements predominate is a speculative transaction. We may assume, then, that the direct

antithesis of such a transaction is an investment, the requisites of which are security of principal, indifference to profit, and certainty of income. Speculation aims at large profit and is attended with unusual risk. Investment aims at income and should be attended with safety of principal. The man who to-day buys stock at \$95 a share with the expectation of selling it to-morrow or next week at \$96 or more, is speculating; but the man who buys the same stock outright and holds it for the sole purpose of receiving the five per cent dividend which it pays is investing.

We are now ready to consider security fields in which money may be safely invested and yield a satisfactory income.

Bonds. A bond is a receipt for money borrowed and a promise to pay interest on it at a fixed annual rate and to return the principal at the end of a specified term of years. The security to such promise may be either personal or lien. Bonds arise out of the needs of national and local governments, corporations, and other concerns, for funds with which to carry out new enterprises. Such funds must be borrowed either directly from the people or indirectly through bankers, and the bonds represent the written obligations of the borrowers. As defined above, a bond is a type of promissory note, the only difference being that the



bond is a long-time loan instrument, generally from twenty to thirty years, and is more formal and pretentious in character. The bond is a form of serial note, the particular purpose of which is to admit of the borrower's dividing his relatively large debt into convenient unit amounts usually of \$1000 or \$500. A corporation might have difficulty in borrowing \$100,000 from a single banker on one note of that amount, and yet might have no trouble in finding one hundred bankers or business men willing to lend it \$1000 apiece, each to take from the corporation a bond for that amount.

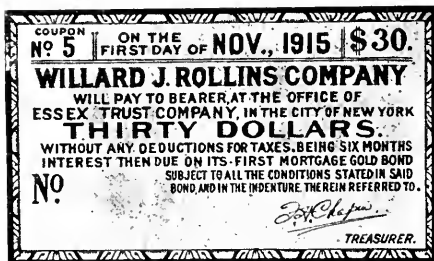
Bonds are frequently issued in low amounts so that they may be available to people with small savings. In order to stimulate popular buying, the United States government, with a view to paying the expenses of the Spanish War in 1898, issued \$20 bonds. United States postal savings bonds are issued in denominations of \$20, \$100, and \$500. The bonds of the first, second, and third Liberty Loans were issued in denominations of \$50, \$100, \$500, and \$1000.

Kinds of Bonds. Bonds may be grouped under five general heads: (1) government bonds, or those issued by the Federal government; (2) state and municipal bonds, or those issued by states, cities, villages, counties, and school districts; (3) railroad bonds, the issue of railroad companies; (4) public utility bonds, such as emanate from corporations that serve cities, namely, street railways, water, gas, and electric companies, etc.; and (5) industrial bonds, the obligations of companies engaged in general commercial and industrial enterprises.

Bonds are further divided into two general classes: (a) coupon and (b) registered. **Coupon bonds** are usually made payable to bearer, both as to interest and principal,

and are accompanied by small interest-due notes, called coupons, which are detached and presented for payment as they mature. **Registered bonds** require the recording

COUPON



of the names of the holders upon the books of the obligated company and provide for the payment of interest by check to such holders or owners.

Bond Securities.

In the case of government and state and municipal bonds, the good name of the authority issuing the bonds is the security for their payment when due, as well as for the payment of interest accruing annually. We freely lend money to our nation, state, or city because we have faith in the governing authority.

Our feeling toward railroad companies, public service corporations, and commercial and industrial organizations in general, is quite different. The greater risks attending the development of such enterprises prompt us to demand a positive guaranty for the return of money lent, and hence their bonds are generally secured by mortgages on property.

Lien Security Bonds. Various kinds of property are offered in security of bonded indebtedness — lands, buildings, stocks, other bonds, etc. Bonds are usually known by the kind of lien security underlying them. Lien-secured bonds may usually be found under one or the other of the following six heads: (1) **first mortgage bonds**, which have first claim

upon certain specified real property ; (2) **second mortgage bonds**, with a second claim upon certain specified real property ; (3) **general mortgage bonds**, secured by a mortgage on all the real property of the issuing company ; (4) **consolidated mortgage bonds**, secured by a general mortgage on the properties of the companies that have been consolidated ; (5) **collateral trust bonds**, secured by stocks and other bonds deposited with a trust company that acts as trustee ; (6) **refunding bonds**, which are the outgrowth of a new loan created to pay off bonds that have matured.

There are various other kinds of bonds, the special object for which the loan was created determining the exact character of the obligation. For instance, in railroad finance we find, among others, these special issues : **equipment bonds**, sometimes called **car-trust certificates**, which are supported by mortgages on the equipment purchased ; **convertible bonds**, or such as may be converted into the stock of the company, if the holder so desires ; **debenture bonds**, which as a rule are nothing more than promises to pay, with the credit only of the issuing company as security.

Merits of Bonds. The value of any bond is dependent upon (1) its security, (2) the rate of interest, (3) the length of the bond term, and (4) marketability. A good bond proposition depends, too, upon the financial purpose that the instrument is to serve. Judged by these standards, we may now consider the merits of the several kinds of bonds mentioned above.

Government bonds meet all the requirements of a good bond investment, except that of interest earned. As our national banking law, until recently, made it imperative upon banks to own government bonds as the basis of their

currency issues, these bonds were purchased mainly by banks. Stability is their great merit. The usual interest rates, of 2% or 3%, are lower than the average. The bonds of the Second Liberty Loan, however, pay 4% interest and those of the Third Liberty Loan, $4\frac{1}{4}\%$. They have the further advantage of being almost entirely free from taxation.

State and municipal bonds, especially the issues of our principal states and cities, are safe investments and are usually exempt from certain classes of taxation. They are fairly good income producers, averaging about 4%. Even at this rate, however, they must be recommended mainly for their stability and secondarily for their earning power. The bonds of towns, counties, and townships, whose credit is not so well established, yield a higher interest rate, but at the expense of stability.

In the field of **railroad and public utility bonds** we find in normal times the best opportunities for investments that are at once reasonably safe and fairly remunerative. Here stability and income reach the fairest balance. Of course, all bonds of this class do not possess equal merit, and much care must be exercised in making a choice; but on the whole they may be purchased with the fair assurance that a satisfactory investment is being made. As mortgage securities underlie these bonds, the values of properties so mortgaged should be investigated in order to determine the worth of the securities themselves. Reliable real estate or other property mortgages usually constitute such securities; hence the element of stability may be assumed to be adequate, and attention should be given mainly to income, which, as a rule, should grade $\frac{1}{2}\%$ to 1% higher than that of state and municipal bonds

Industrial bonds rank lowest in point of safety of principal, because less stable types of securities accompany them and because greater uncertainties attend the development of all private commercial enterprises. Though generally not classed among speculative securities, industrial bonds approach nearest to that classification.

QUESTIONS AND EXERCISES

1. Explain the difference from an investor's viewpoint between the following transactions: buying an unimproved seashore lot and purchasing a house for rental purposes.
2. A city, wishing to pave streets, issues a twenty-year bond series in order to raise the necessary funds. Is this good or bad practice, and why?
3. Why is a purchase of industrial bonds likely to be more speculative than a purchase of government bonds?
4. How do the two bonds following compare in merit: a first-mortgage bond issued by a railroad company and a debenture bond issued by a mining company?
5. Contrast the investment features of bonds of a railroad operating in an industrial district with those of a road operating in an agricultural section.

XXVII. STOCK INVESTMENTS

Stocks, or Stock Certificates. Stocks, or stock certificates, are the issues of corporations or stock companies which certify that the holder in each instance is an owner of the capital stock of the company to the amount stated in the certificate.

A **corporation** is an association of individuals incorporated, or chartered, by some state for the purpose of conducting

certain kinds of business stated in the charter. One of the privileges granted by the state is to sell stock or shares, as they are called, in the business to any one who may wish to buy. These shares vary in value according to the wish

STOCK CERTIFICATE

INCORPORATED UNDER THE LAWS OF THE STATE OF MINNESOTA	
No. 1003	10 Shares
<div style="border: 2px solid black; padding: 5px; margin: 0 auto; width: 80%;"> <h2 style="margin: 0;">The Vesuvius Iron Company</h2> <p style="font-size: small; margin: 0;">CAPITAL STOCK \$500,000</p> </div>	
<p><i>This Certifies that <u>Edward A. Moore</u> is the owner of</i> <i>Ten Shares, of one hundred dollars each, of the Capital Stock of</i> <div style="text-align: center; font-weight: bold;">The Vesuvius Iron Company</div> <i>transferable only on the books of the Corporation by the holder</i> <i>hereof, in person or by Attorney, upon surrender of this Certificate</i> <i>properly endorsed.</i></p>	
<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="width: 20%;"> </div> <div style="width: 80%;"> <p><i>In Witness Whereof, the said Corporation has caused this Certificate to be</i> <i>signed by its duly authorized officers and to be sealed with the Seal of the Corporation</i> <i>this <u>Twenty seventh</u> day of <u>September</u> A. D. 19<u>12</u></i></p> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 45%; text-align: center;"> <u>A. H. Towne</u> <small>Secretary</small> </div> <div style="width: 45%; text-align: center;"> <u>E. C. Thompson</u> <small>President</small> </div> </div> </div> </div>	

of the incorporators; but each company's shares are always of the same denomination; as, for instance, \$100, \$50, \$25, \$10, \$5, or even lower.

All purchasers receive stock certificates from the company, and are called **stockholders** or **shareholders**. Each stockholder may vote annually or periodically for the directors of the company, and he is entitled to a share in the profits of the business, in the form of **dividends** on his

stock, when such dividends are declared by the directors. Dividends are as uncertain to the stockholder as are profits to the partner in a partnership organization. Both put their money into the business without guaranty of its return or assurance of receiving any regular income from it.

How Stocks Differ from Bonds. When you buy a bond, you lend the company issuing it a certain sum of money upon which you are guaranteed an annual rate of interest, with a return of the principal after a period of years; and you are secured in both these promises by title to property in the form of a mortgage. When you buy stock you buy simply an interest in the business; and there is no more guaranty of annual income or of ultimate return of your principal than if, with one or more other persons, you form a partnership in which each invests a certain sum of money. The amount of your dividend depends entirely on the prosperity of the enterprise. Bond debts are fixed charges that must be paid with interest; but dividends on stocks are contingent on profits, and the investments are sunk in the working capital.

Kinds of Stocks. Unless otherwise designated, all stocks may be called **common**, although this description is entirely unnecessary with companies that issue only one kind. Two grades of stock are usually offered, one taking precedence over the other in assets and dividends. The first is said to be **preferred stock**, and the second, **common stock**. Generally speaking, there is no certainty that either kind will be allotted a dividend; but the promise is that the preferred class shall receive a dividend first, if there are any dividends to allot. What the size of the dividend shall be depends on the vote of the directors, based upon the profits of the year's business. In some companies the

preferred stock is entitled to a certain maximum dividend, say 5 % or 6 %, and the common stock receives what is left. In very prosperous years, this may exceed the dividend on the preferred issue. This explains why the common stock of certain companies is quoted at higher prices than the preferred stock. In order to prevent this contingency, it is sometimes agreed that if any profits are left after both preferred and common stockholders have received stipulated dividends, say 5 % or 6 %, the remainder, or a certain per cent of it, shall go to the preferred class.

Some stocks have never paid a dividend. When, however, dividends are guaranteed annually on stocks, the failure to pay in any one year constitutes an additional dividend charge that accumulates with that of the succeeding year, and the stock is called **cumulative preferred**. It amounts to an obligation to pay a fixed income on the par value of such stock. In their regular income feature stocks are like bonds, but their security rests only upon the earning power and the credit standing of the company.

Watered Stocks. Stocks are said to be **watered** when they are issued to persons who have paid no actual money for them, although they may have given valuable advice or other service. Another term used to express the same process is **overcapitalization**; that is, the issuing of stock above the actual amount of capital invested. In the cases of many large industrial companies that are overcapitalized, the preferred stocks represent real investment and the common shares "water."

• **Merits of Stocks.** The merit of a stock as a real investment consists (1) in the character and the business record of the issuing company; (2) in the amount and the regularity of dividends earned; and (3) in the marketable value

of the security. Considered as a class, stocks do not fulfill the main requisites of an investment, — security of principal and regularity of income. As stocks are not secured and have no guaranteed dividend, one reason for buying them is generally the expectation or hope of selling at a higher price, which amounts to speculation. Bonds as a class are the ideal investment; stocks as a class are equally ideal for speculation. But just as some bonds have speculative value, so some stocks are safe investments.

Stocks of Banks, Trust Companies, etc. Banks, trust companies, insurance companies, and the like issue stock that may generally be considered safe as an investment and reasonably good as an income producer. Because of the large dividends paid by such institutions, there is a good demand for their stocks, which often rise to such a premium that the actual yield to the investor is small. These securities do not usually have an active market, as they are controlled by comparatively few people. They can be purchased, as a rule, only through private sources.

Railroad Stocks. The railroads generally offer greater opportunity for safe stock investment than any other kinds of enterprises. The constant expansion of the railway area and the increasing amounts of capital needed for extensions make frequent stock issues necessary and keep the markets supplied with a type of security which, if purchased with discrimination, offers a reasonably safe and lucrative avenue to the investing public. Some of the conditions peculiar to railway ownership and management which give stability to their stock issues are: (1) the sound business foundations underlying railroads; (2) their special privileges in rights of way and terminals, a constantly in-

creasing asset ; (3) the economy of their management ; and (4) the conservatism, in the main, of their capitalization.

Other Stocks. Stocks of city or suburban railways, known as **tractions**, as well as **industrial** and **mining stocks**, are less safe than railroad stocks for conservative investors. Speculative mining stocks, in particular, are subject to great risks.

QUESTIONS AND EXERCISES

1. Trace the development of a business organization from the individual proprietor to the corporation.
2. How do the liabilities of the ordinary partner differ from those of a shareholder in a corporation?
3. What real and artificial causes enter into a change in the market value of stocks?
4. Why is common stock better adapted to speculation than preferred stock? Under what conditions may common stock be a better investment than preferred stock?
5. What different circumstances affect the merits of stocks issued by railroads and industrial concerns?

XXVIII. BOND AND STOCK MARKET

Buying Stocks and Bonds. In selecting a good investment security, the knowledge of an expert in business enterprises and in stock and bond issues is just as important as is the opinion of a specialist to one setting out to buy a house or a motor car. The prudent purchaser of a house would enlist the services of a real estate specialist, the careful buyer of a motor car would ask the advice of an automobile expert. So the investor in securities should put his case

in the hands of a reputable stockbroker whose business it is to know the merits of securities.

Inexperienced people often intrust the investment of their funds to friends or to relatives and even permit them to hold the securities. Convenience and momentary economy are the only advantages of this method; ultimate disaster and distress are likely to follow. In the first place, the friend or the relative generally is not a specialist in securities, and he will invest the funds quite as inexpertly as might the owner himself; and in the second place, with the securities in his hands comes the temptation to manipulate them in various ways, which may so involve them that loss is likely to follow. The only safe course is to select a reputable stock and bond broker, and leave the case in his hands.

The Stock Exchange. The stock exchange is an association of brokers for the buying and selling of securities. It has as its legitimate aim the providing of an open and regular market where stock companies may go to find buyers for their stock certificates and where capitalists or investors may go to select securities into which to convert their funds. Each one of our principal cities has its stock exchange; but the original and authoritative market of the United States is the New York Stock Exchange, where, in prosperous financial seasons, there is a daily average sale of eight hundred thousand shares of stock and ten million dollars worth of bonds.

It must not be understood that this vast business is made up entirely of investment sales. A large part of the business of the stock exchange is purely speculative; that is, many stocks are bought or sold with a view to a quick realization of profit. Practically all such transactions are

based upon marginal operations, the buyer or the seller putting up 10% or more of the price involved, dependent upon the reputation or character of the stock. The purchaser of the stock borrows the remainder from his broker, expecting to realize a profit by selling at a higher price or by buying at a lower price, before his margin is wiped out by price fluctuations. These are some of the evils connected with the stock exchange. This perversion of the legitimate function of the stock exchange should not blind us to the very important service it performs for the business community.

The New York Stock Exchange. A brief description of the New York Stock Exchange will furnish a general idea of the character and the methods of all stock markets. The New York Stock Exchange is an unincorporated association of 1100 members, organized for "the purpose of supplying a continuous and regulated market for the buying and selling of stocks and bonds." The limited membership, long since filled, makes places, or "seats," as they are called, very valuable, especially in times of large business. The profits to the broker member consist in the commissions he receives from his customers in executing their orders on the exchange. At the rate of $\frac{1}{8}\%$ for either buying or selling, the receipts in commissions are very large and justify the investment of a considerable capital in a "seat." During the past ten years memberships have been sold at from \$50,000 to \$95,000.

Investors do not have direct access to the exchange floor, but leave their orders in the offices of broker members, who, the same day, or the day following, execute them at the exchange. The results of such transactions can be immediately communicated, over the telephone, by the broker in

the exchange to the customer in the broker's office. The exchange is open on business days between ten and three, except on Saturdays, when the closing hour is twelve. The exchange is officially opened and closed by a chairman, whose further business it is to preserve order and to make all necessary announcements.

About the trading room are posts bearing placards on which are printed names of stocks, and around these posts the brokers group themselves according to their commissions in the various securities specified.

As soon as a purchase or a sale is completed, memorandums of the transaction are made by the contracting brokers, and a copy is given to a waiting page who carries it quickly to the secretary of the exchange. The secretary notes the transaction on his book of record. He then directs a clerk to have it recorded on the price board and to transmit it by telegraph to other exchanges, and to customers of the exchange who have contracted to receive regularly through the so-called **stock-indicator** or **ticker** a complete record of each transaction made. By these means the public is apprised of the last quotation on any stock, and those desiring to buy or to sell are guided accordingly. These tickers are to be found in brokers' offices generally and in certain public places, like hotels. Quotations of the market values of stocks and bonds, which vary from day to day, may be found in the daily newspapers.

Other Avenues of Purchase. Besides the stock exchange, the securities market includes what is called the **curb**, the **auction block**, and the many less public and more personal methods of bringing together the two parties to stock or bond investments. Not all stocks and bonds can be purchased at the regular exchanges, but only those of

companies whose officers are willing to comply with the rules of the exchanges as to stock lists. Such restrictions have operated to keep out of the official exchanges certain good stocks that are offered publicly at the outside or unofficial curb market, so called because the brokers have often met on the sidewalks. Also there are certain stocks that are never active and hence are not suitable for listing on a regular exchange. These find new buyers only over auction blocks, places where at stated times during the week securities of all kinds are auctioned off to the highest bidders. The safe guidance of a reliable broker is especially important in the purchase of such stocks.

Many private and personal sources may be used to convert funds into securities, especially bonds. Possibly the largest of these is the field of private banking. One of the chief sources of profit to our great private banks is the underwriting of securities that are issued by corporations. To **underwrite** is to issue and to be responsible for. For instance, if the Universal Metal Corporation should wish to raise \$10,000,000 additional capital by bond issue, it might place the mortgage security required in the hands of Dwyer and Company, private bankers, who would sell the bonds to the public and themselves agree to pay for every bond not sold. For this service they would receive a commission.

Trust companies, financing as they do extensive building operations, offer a type of mortgage bond that is at once sound and remunerative. Lawyers, too, in caring for large estates are in a position to steer the investor into safe channels. No matter what the ultimate medium of purchase may be, the general direction to seek the advice of an experienced securities broker should be followed.

QUESTIONS AND EXERCISES

1. What advantage accrues to a municipality which issues bonds in small denominations and markets them itself?
2. What is meant by the "bull movement" in the stock market? the "bear movement"? a "lamb"?
3. What advantage accrues to a company in having its stock listed on the stock exchange?
4. Why is the stock exchange more necessary now than it was fifty years ago?
5. Is there any difference between buying stocks on margin and buying wheat on margin?

XXIX. MORTGAGE AND REAL ESTATE INVESTMENTS

Mortgages. As already explained, the mortgage is a written instrument representing a claim on land or buildings against which the owner has borrowed money for a stated term of years. The borrower agrees to pay interest at a rate based on the risk assumed and on the abundance or scarcity of money seeking investment. The average rate is between 5% and 6%.

The distinguishing feature of a mortgage as compared to a bond is that the holder of the mortgage can never realize on his claim more than his mortgage calls for, since he has lent a definite amount of money for a given period at a stipulated rate of interest. The bondholder, though he likewise has lent his money for a given period at a fixed rate of interest, may sell at a premium or at a loss because of the fluctuations in bond values due to active trading in such securities on the exchanges. There is no open market

for mortgages and they are costly to transfer, hence trafficking in them is reduced to a minimum. This handicap of mortgages is offset by larger income and correspondingly greater security, the two indispensable elements in every perfect investment. The only advantage that a well-secured bond has over a mortgage is the longer term of the loan, although as a matter of fact most mortgages, while written for a relatively short time, three or five years, are by common consent allowed to extend themselves indefinitely. Mortgages, therefore, seem to fulfill completely the requirements of a stable and profitable investment.

A mortgage on land is better than one on a building, as the value thus mortgaged is at all times inherent in the land, whereas much of the value of a building is dependent on the nature and the extent of the use made of it. For instance, a mortgage on an office building, based mainly on building value, depends for its stability too much on whether the building is profitably tenanted, a commercial uncertainty that should be eliminated as much as possible in mortgage securities. Good city or farm lands retain their value irrespective of the buildings occupying them, and increase in value, thus adding security to mortgages attached to them. The investor can find no better or safer investment of his money than a first mortgage on land accepted for not more than 60% of its value. In support of this opinion may be mentioned the fact that the state of New York permits savings banks to invest 65% of their funds in real estate mortgages.

There may be **second mortgages** or subsequent mortgages on a piece of property. In case of foreclosure these are paid in the order of their date; that is, the first mortgage

must be paid in full before anything is paid on the second mortgage. Second mortgages have merit in proportion to the value that the prior lien has in relation to the full value of the property mortgaged. Because of the subordinate relation of the second mortgage and the greater risks surrounding it, it yields a higher rate of interest. A borrower getting first mortgage money at 5% will generally have to pay 6% for a second mortgage.

Real Estate. In considering real estate as an investment field, we shall divide it into (1) improved real estate, property on which something is built; and (2) unimproved property, land without anything built on it. As we are endeavoring to guide the average citizen in this investment process, we may at once dismiss the subject of unimproved property as a field too speculative in character and as a business proposition too slow of development to suit the purpose. Real estate, to be worthy of consideration, should be improved and should represent a growing enterprise. Even under such conditions the element of risk cannot be eliminated, since all such property depends for its value on profitable occupancy. If it is a farm property, the income to the owner grows out of his tenant's successful tilling of the soil, raising of stock, etc.; if it is a business or residence property, income depends on a good tenant with rentals adequate to leave a fair interest on the investment after all taxes and other fixed charges are paid.

Real estate is a field of investment offering opportunities for fair income and large profits to men of large capital, who by investing in a number of properties have a chance to earn a good *average* income even though some of the properties are unproductive. The purchase of property, especially residences, even though cheap and promising a

high per cent of income, is not to be recommended to small investors. The annoying circumstances attending the renting of such property, the uncertainty of getting and keeping a good tenant, the generally declining values—all tend to make the ownership of such property a burden; and the owner often disposes of such investments at a loss, in his anxiety to relieve himself of the annoyance. An investment that gives constant anxiety to the owner is not desirable. Real estate for the small buyer possesses these faults, and should not be purchased when good mortgages and bond securities are available.

How to Purchase Mortgages and Real Estate. There is no open and continuous market for the purchase and sale of real estate and mortgages as there is for stocks and bonds. Real estate exchanges in this sense do not as yet exist. Transactions in real property and in mortgages are relatively so few as not to promise an adequate basis for a regular daily market; hence all purchases, except occasional auction sales, must be made privately. If we contemplate buying a house, we should go to a real estate broker. He will act in the same professional capacity for his commission of 1% or 2% as the stock broker does for his commission of $\frac{1}{8}\%$. The realty broker in addition handles mortgages, insurance policies, and other instruments incident to property transactions. Lawyers likewise make it part of their business to place mortgages; that is, to find buyers. The newest and possibly largest agency for this business is the trust company, whose real estate department can offer to the money lender mortgages of many kinds and amounts. In many respects this agency offers to the investor in mortgages and real estate an avenue of purchase that is generally marked by both convenience and safety:

QUESTIONS AND EXERCISES

1. In the purchase of a mortgage, what should you know about the property involved?
2. If the interest on a mortgage is not paid, what steps must be taken by the holder to safeguard his investment?
3. In considering the question of investing in real estate, should you prefer to buy in the central business district of a city, in the suburbs, or in a farming community? Give reasons.
4. What effect does a line of transportation have upon adjacent property values? Why?
5. In investing in real estate, should you prefer to employ a trust company or an individual real estate broker to attend to the business of transfer? Why?

PART VI

LETTER WRITING

XXX. BUSINESS LETTERS

Kinds of Letters. The field of letter writing embraces (1) friendship letters; (2) social letters, including invitations, acceptances, letters of congratulation, of condolence, of introduction, etc.; (3) business letters; and (4) public letters, addressed to a public official or other person through the newspapers or some other form of public print.

Business Letters. The purpose of this chapter is to present the essentials of business correspondence. In doing this we shall incidentally consider the important elements of other kinds of correspondence as well. Good business letters largely constitute the basis of good business practice; and nearly every one, at some time or other, has incidental business relations with some one else, the successful conduct of which necessitates a knowledge of letter forms acceptable to the business community.

Points to Be Observed. (1) Be sure that you have something worth writing about.

(2) Before beginning to write, have a clear idea of what to say and how to say it.

(3) Write concisely, completely, and briefly.

(4) Make sure that your letter is correct in form and neat in appearance.

These precautions are all of the greatest importance. First, many a person compromises himself by writing a superfluous letter or suffers a disadvantage by writing at an ill-chosen time. Second, a clear mental outline of the letter will result in a logical presentation of facts, and will protect the writer against loss of time occasioned by the necessity of rewriting the letter or a part of it several times. Third, the principal merit of a business letter is brevity with completeness of statement, and this cannot be secured unless the writer is direct and concise in expression. Fourth, a letter that lacks neatness and correctness is a discredit to the sender and a discourtesy to the recipient.

Parts of a Letter. A letter may be divided into six main parts, as follows:

- | | |
|--------------------|-------------------------|
| 1. Heading. | 4. Body. |
| 2. Inside address. | 5. Complimentary close. |
| 3. Salutation. | 6. Signature. |

SKELETON LETTER FORM

(Inside address)-----	(Heading)-----

(Salutation)-----	
(Body of Letter) -----	

(Complimentary close)-----	
(Signature)-----	

Heading. Standard business practice places the heading in the upper right-hand corner of the sheet, as shown in the form on page 145. It should be complete, containing in the case of large cities the street and the number, and in the case of small towns the county of the state. Business letterheads provide these headings in print, with a blank line for filling in the date.

The following are acceptable forms of headings:

HEADINGS

Elmira, N. Y., Jan. 10, 1918
825 Folsom Street San Francisco, Calif. July 1, 1918
New Bedford, Lawrence Co., Pa. Sept. 2, 1918
Harvard University Cambridge, Mass. Dec. 14, 1918

There is a growing tendency to omit the punctuation marks at the ends of the heading lines, except where the line ends in an abbreviation. Note that the abbreviations "th," "st," and "d" are not used with the date in headings; "nd" and "rd" are obsolete in all cases.

Inside Address. The inside address is placed on the left-hand margin line, about an inch below the date line. It consists of the name of the person, the firm, or the institution written to, together with the name of the city or the

INSIDE ADDRESSES AND SALUTATIONS

Messrs. Kline, Barber, and Company
1150 Broadway
New York, N. Y.

Gentlemen:

Miss Katherine Wells
450 Gay Street
Knoxville, Tenn.

Dear Miss Wells:

Western Lumber Company
Seattle, Wash.

Gentlemen:

Prof. Arthur A. Fiske
Yale University
New Haven, Conn.

Dear Mr. Fiske:

Mr. Samuel Stone
Bethel, Maine

Dear Sir:

town and the state of residence. It may occupy two or three lines. It is not always necessary to include the street number or the county. In addressing men, the common title "Mr." is always appropriate. Instead of this

title, "Esq." may be appended to the name of lawyers and those occupying public positions. It is wrong to use both these titles with the same name, or two like titles of any kind. A physician may be addressed either as Dr. John Spencer or John Spencer, M.D., but not as Dr. John Spencer, M.D.; Rev. John Fisher, D.D. and Prof. Frank Patton, LL.D. are permissible, because the two titles in each instance are of different significance. "Messrs.," the abbreviation for the French "messieurs," applies to two or more men or to business firms. "Honorable" or "Hon." is appropriate when addressing men in high public office. Use "Miss" or "Mrs." in addressing a woman, and "Misses" or "Mesdames" in addressing more than one woman.

Salutation. The style of salutation to be employed depends on one's relation to the person or persons addressed, and on the nature of the communication itself. Standard styles in business are as follows:

Dear Sir:	Dear Madam:
My dear Sir:	My dear Madam:
Sir:	Ladies:
Dear Mr. —:	Mesdames:
My dear Mr. —:	Dear Miss —:
Gentlemen:	My dear Miss —:
Dear Sirs:	Dear Mrs. —:
Sirs:	My dear Mrs. —:

"Sirs" and "Sir" apply to communications of a more formal character. "Dear Mr. —," "Dear Miss —," "Dear Mrs. —," and "My dear Mr. —," "My dear Miss —," "My dear Mrs. —" are less formal and should be used in personal correspondence and in letters of an incidental business nature. "Dear Madam" is proper as

a salutation for either a married or a single woman. The salutation of a business letter is usually followed by a colon.

Note the forms on page 147 for address and salutation. The first form is finding favor for typewritten letters because it facilitates operation. The commas are frequently omitted after the address lines.

Body of the Letter. The body of the letter is the communication proper, and may begin on the line below the salutation, about an inch to the right of the margin. Leave generous margins on all sides, as crowding spoils the appearance of the letter. Paragraph only when you change from one subject to another, or when you wish to give emphasis to important subdivisions of a given subject. Paragraphing merely for the sake of appearance is not justifiable. Every new paragraph should begin directly under the first word of the body of the letter.

Do not overpunctuate; punctuate just enough to make the construction clear. Until you acquire by experience the punctuation sense, as apart from grammatical rules, you can get on pretty well with the comma, the period, and the interrogation mark, with very occasional use of the colon and the dash. The semicolon is a troublesome mark. When the young writer feels the possible need of it, he is safer in using the period. This will have a tendency to keep the sentences short, — a desirable feature in writing.

Do not overcapitalize. The tendency to-day is away from meaningless capitals, which only mar the page and somewhat confuse the eye in reading. Besides, in type-setting and in typewriting, considerable time and labor are saved by avoiding capital letters and all "upper case" marks as much as possible. Even the words "street" and "avenue" in such expressions as "Market street" or

"Park avenue" are now frequently written without capitals.

The abbreviations "inst.," for "instant" (the present month); "ult.," "ultimo" (the last month), and "prox.," for "proximo" (the next month) are falling into disuse. "1st," "3d," "5th," etc., are not abbreviations and should not be followed by a period. Do not use these forms unless they precede the month. "Your letter of the 25th of April is received," and "Your letter of April 25 is received," represent the best business practice. The names of cities should never be abbreviated; there are no authorized abbreviations for cities. Names of states should not be abbreviated unless preceded by the name of a town or of a city.

Complimentary Close. The terms in which a letter should be closed should be in harmony with the salutation, as both are selected with reference to the relations existing between the correspondents. The more formal letters of business which open with "Dear Sir," "Gentlemen," etc., should close with "Yours truly," "Very truly yours," or "Respectfully yours." "Cordially yours," "Sincerely yours," and the like, are proper for less formal communications. In the complimentary close, note that only the first word is capitalized.

Signature. The most important thing to say about the signature is that it should be written so that it can be read. The courtesy of a readable signature is due to every person addressed, especially if an answer is expected. A woman's signature should clearly show that it is the signature of a woman, and this requires that the first name be written in full or that "Miss" or "Mrs." be added in parenthesis. A married woman should sign her own first name,

but should at the same time indicate her married state and suggest the manner in which she should be addressed in reply, by writing in parenthesis her husband's first name or initials. Thus, Mrs. William D. Forman, whose given name is Anna L., should sign "Anna L. Forman (Mrs. W. D.)." When signing for another, write your own name or initials in smaller script immediately under the principal signature.

The initials of the person who dictates a letter and the one who typewrites it are often placed at the left-hand margin.

Study the following letter as a model in which all parts are brought into proper relationship.

15 State Street
Toledo, Ohio
July 12, 1918

Mr. Charles O. Stimson
84 Boylston Street
Boston, Mass.

Dear Sir:

During my recent visit to your city I had the pleasure of an interview with you, in the course of which you expressed a desire to inspect my goods with a view to placing a stock of them on sale in your store. In order to facilitate this end, I take pleasure in sending you to-day, by express, a package containing samples of a new line of wall paper just ready for the market.

I trust that you will be sufficiently impressed with these samples to place with me a trial order, as I feel confident that the demand for these goods will justify your decision.

Yours truly,

Joseph H. Conover

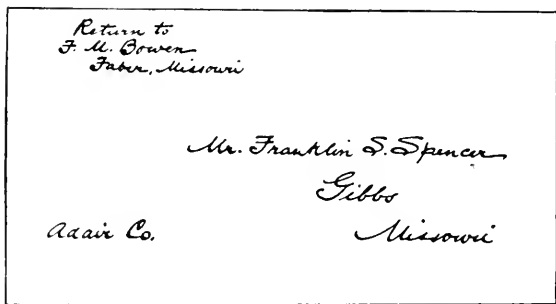
JHC/MT

Paper. Business letters should be written on business styles of paper. These commonly consist of two sizes, the larger approximately $8\frac{1}{2}'' \times 11''$, being called letter size; and the smaller, which varies in dimensions and shape, note size.

Folding. The letter-size sheet should be folded by bringing the bottom edge up and laying it evenly along the top edge, or within a half inch of it, then turning the right edge to the middle and laying the left third over it. The note-size sheet requires two folds only. Insert the sheet in the envelope so that the open parts of the folds are toward the back and the top.

XXXI. ADDRESSING ENVELOPES

Envelope Address. The addressing of the envelope admits of considerable variation, but some features are



invariable. Write clearly, as the postal officials must work quickly and accurately. Avoid the doubling up of titles and the writing of anything superfluous on the envelope. Titles are sometimes omitted entirely, as in the envelope on page 153 addressed to "Winton and Baxter."

The abbreviation of certain states may easily be confused when written with a pen. "Pa." and "Va.," "N. Y." and "N. J.," "Me." and "Mo.," are causing much annoyance to postal officials. It is better to write the name of

After 10 days return to	
T. J. Lord	
6 Julia Street	
New Orleans, La.	
WINTON AND BAXTER	
PORTLAND	
55 Flint Street	OREGON

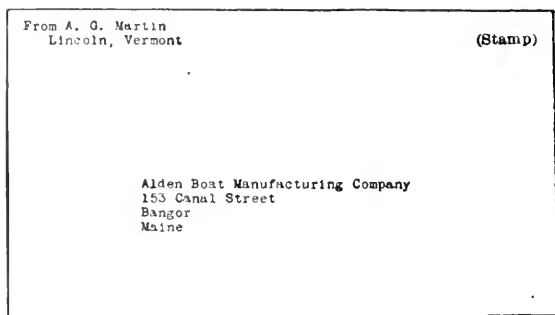
the state in full, especially in cases where confusion is possible. Always write the name or the abbreviation of the state on a line by itself, or clear of anything else on the same line. The style shown in the model on page 154 is a

Return to
Edith V. Powers
Waltham, Minn.
MR. CORNELIUS V. HARPER
1420 Tennessee Street
MEMPHIS
TENNESSEE

pleasing innovation, and has much in its favor as a time saver both to the typist and to the postal clerk—to the former, because of the uniformity in the starting point; and to the latter, because of orderliness in arrangement.

All envelopes, but most imperatively business envelopes, should contain the address of the sender in the upper left-hand corner.

The stamp should be placed in the upper right-hand corner.



Postal Information. Although full information as to postal rates is available at any post office, it is well to include here the common mailing regulations. Domestic mail is divided into four general classes as follows :

First-class matter includes written matter ; namely : letters, United States postal cards, post cards (private mailing cards), and all matter wholly or partly in writing except manuscript copy accompanying proof sheets. The limit of weight is 70 pounds for distances up to 300 miles and 50 pounds for greater distances.

The rates of first-class matter are :

(1) On letters and other matter wholly or partly in writing, 3¢ an ounce or fraction thereof.

(2) On drop letters, that is, letters addressed for delivery from the post office from which they are posted, 2¢ an ounce or fraction thereof.

(3) On United States postal cards and private mailing cards, 2¢ each.

Second-class matter includes newspapers and periodicals bearing notice of entry as second-class matter. No limit of weight is prescribed.

The rate of postage on newspapers and periodicals of the second class when sent unsealed by the public is 1¢ for each 4 ounces or fraction thereof.

Third-class matter includes circulars, newspapers, and periodicals not admitted to the second class nor embraced in the term "book," miscellaneous printed matter on paper not having the nature of an actual personal correspondence, corrected proof sheets, and manuscript copy accompanying the same, and matter in point print or raised characters used by the blind. The limit of weight is 4 pounds.

The rate of postage on unsealed third-class matter is 1¢ for each 2 ounces or fraction thereof.

Fourth-class matter embraces that known as domestic parcel post mail and includes merchandise, farm and factory products, seeds, plants, etc., books, miscellaneous printed matter weighing more than 4 pounds, and all other mailable matter not embraced in the first, second, and third classes. The limit of weight for parcels in the first three zones is 70 pounds and for all others 50 pounds.

Rates of postage on fourth-class or parcel post matter — to be fully prepaid, unsealed — are as follows:

(1) Parcels weighing 4 ounces or less, except books, seeds, plants, etc., 1¢ for each ounce or fraction thereof, any distance.

(2) Parcels weighing 8 ounces or less containing books, seeds, plants, etc., 1¢ for each 2 ounces or fraction thereof, regardless of distance.

(3) Parcels weighing more than 8 ounces containing books, seeds, plants, etc., parcels of miscellaneous printed matter weighing more than 4 pounds, and all other parcels of fourth-class matter weighing more than 4 ounces are chargeable according to distance or zone at the pound rates shown in the following table, a fraction of a pound being computed as a full pound.

	FIRST POUND	EACH EXTRA POUND
Local Rate (5¢ for first pound and 1¢ for each additional two pounds or fraction thereof).		
1st zone — 1 to 50 miles	\$.05	\$.01
2d zone — 50 to 150 miles . . . . .	.05	.01
3d zone — 150 to 300 miles . . . . .	.06	.02
4th zone — 300 to 600 miles . . . . .	.07	.04
5th zone — 600 to 1000 miles . . . . .	.08	.06
6th zone — 1000 to 1400 miles . . . . .	.09	.08
7th zone — 1400 to 1800 miles . . . . .	.11	.10
8th zone — over 1800 miles . . . . .	.12	.12

In addition, parcels on which the postage amounts to 25¢ or more are subject to a tax of 1¢ for each 25¢ or fractional part thereof.

XXXII. SPECIAL FORMS OF LETTERS AND TELEGRAMS

Letters of Introduction and Recommendation. Letters are occasionally used in business to introduce or to recommend a person. As a rule a business man is not inclined to give a letter of introduction unless at the same time

he is willing to add a word of recommendation. Such letters should be very sparingly given, and only to those persons whom the writer is ready to vouch for. They should be brief and should contain nothing but the element of introduction or recommendation or both. Letters of introduction are always addressed to some particular person or firm, as shown below. Letters of recommendation

LETTER OF INTRODUCTION

New Orleans, La., March 9, 1918

Mr. Elias M. Munson

Louisville, Kentucky

Dear Sir:

It gives me unusual pleasure to introduce to you my business acquaintance and friend, Mr. Leroy Stanley, who purposes spending several days in your city with a view to establishing business relations with certain Louisville houses. Whatever personal courtesy or business consideration you may feel inclined to extend to him will be greatly appreciated by me as well as by Mr. Stanley.

Yours very sincerely,

Malcolm Denton

may be likewise specific, but frequently are general and open in address, as shown in the form on page 158.

LETTER OF RECOMMENDATION

Richmond, Va., January 21, 1918

To whom it may concern:

This is to certify that the bearer, Miss Jennie Courtney, has been a bookkeeper in our service for the past three years. A reorganization of our business, which involves a reduction in our office force, is the sole cause for dispensing with Miss Courtney's valuable services. In addition to certifying to her efficiency as an accountant, we take pleasure in recommending Miss Courtney as a woman of fine character and good business judgment.

Respectfully yours.

Amos Cummings and Company

Telegrams, Cablegrams, and Wireless Messages. For quick service the business man frequently resorts to wire or wireless forms of communication. Although facilities for wireless communications are improving each year, messages by wire between land points, called **telegrams**, and those across the seas, called **cablegrams**, are still commercially most economical. As the cost of all such messages depends upon the number of words used, the first essential is extreme brevity. In telegrams the body of the message only is subject to charge, the address and the signature going free. The basis for telegraph charges is ten words, or a fraction thereof, in the United States and Canada, and distance determines what this charge shall be. Each additional word has a unit charge. Figures of all kinds must be expressed in words.


In order to extend their service, telegraph companies now transmit messages, called **night letters**, at reduced rates, fifty words being sent for the price of a ten-word

day telegram. Such messages may be filed any hour, to be forwarded by telegraph at the company's convenience during the night and delivered the following morning.

A further extension of the service provides for **day letters** by which day messages of fifty words or less are sent for one and one half times the cost of fifty-word night letters. Such messages are transmitted at any time during the day when the wires are least occupied with day telegrams.

In cablegrams and wireless messages a charge per word is made for every word, including address and signature; hence code words are commonly employed in business. Each code word usually stands for several other words.

As these messages are abridged or blunt business communications, the mere courtesies of correspondence are omitted. Telegraph and cablegram blanks are provided by the companies. Following is an example of a message:

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; font-size: small;">CLASS OF SERVICE DESIRED</th> </tr> <tr> <td style="font-size: x-small;">Fast Day Message</td> <td style="text-align: center;"><input checked="" type="checkbox"/></td> </tr> <tr> <td style="font-size: x-small;">Day Letter</td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td style="font-size: x-small;">Night Message</td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td style="font-size: x-small;">Night Letter</td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td colspan="2" style="font-size: x-small;">Patrons should mark as X message the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.</td> </tr> </table>	CLASS OF SERVICE DESIRED		Fast Day Message	<input checked="" type="checkbox"/>	Day Letter	<input type="checkbox"/>	Night Message	<input type="checkbox"/>	Night Letter	<input type="checkbox"/>	Patrons should mark as X message the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.		<h1 style="margin: 0;">WESTERN UNION</h1>  <h1 style="margin: 0;">TELEGRAM</h1> <p style="font-size: x-small; margin: 5px 0;">NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT</p>	<div style="text-align: right; font-size: x-small;">Form 1206</div> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="height: 30px; font-size: x-small;">Receiver's No.</td> </tr> <tr> <td style="height: 30px; font-size: x-small;">Check</td> </tr> <tr> <td style="height: 30px; font-size: x-small;">Time Filed</td> </tr> </table>	Receiver's No.	Check	Time Filed
CLASS OF SERVICE DESIRED																	
Fast Day Message	<input checked="" type="checkbox"/>																
Day Letter	<input type="checkbox"/>																
Night Message	<input type="checkbox"/>																
Night Letter	<input type="checkbox"/>																
Patrons should mark as X message the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.																	
Receiver's No.																	
Check																	
Time Filed																	

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

Denver, Colorado, Aug. 15, 1918

Eagle Motor Car Company

Detroit, Michigan

Ship fast freight five Model M

towing cars.

The Trent Warden Company

*The Trent Warden Company, of Denver, requiring the promptest possible shipment of five Model M touring cars from Detroit, would wire the builders, the Eagle Motor Car Company, as shown in the model on page 159.

EXERCISES

1. Write a letter to the boot and shoe manufacturing firm of Fitch and Holden, Lynn, Massachusetts, ordering one dozen pairs of men's black Oxford shoes, two dozen pairs men's tan Oxfords, and two dozen pairs women's canvas tennis shoes, sizes and styles to match those recently purchased. Ask that they be shipped promptly by express, as you have now on file orders for some of them. Remind the firm that you will expect the usual trade discounts. Sign the letter for your firm, J. Smitheman and Company.
2. John Alexander, of Wheeling, West Virginia, is about to add to his store a department of carpets and rugs. He writes a letter to the Domestic Carpet Manufactory, 1750 North Fiftieth Street, Philadelphia, Pennsylvania, stating this fact, and asking whether they will furnish to him his introductory stock up to \$5000 in amount, and extend to him a credit for four months. He refers them for his credit standing to The Wells Sanders Company, wholesale dealers in notions in Philadelphia, with whom he has had an open account for five years, and to the First National Bank of Wheeling, his depository. Write this letter in the name of John Alexander.
3. You have just become a resident of Chicago, with address at 5310 Prairie Avenue, where you expect to continue your practice in medicine and surgery.

As you wish to open for your family a general merchandise account with the Walton and Hayes Company, you write to them asking for the privilege of doing so. Before coming to Chicago you lived for ten years in New York, where you maintained accounts with the Whitaker Company and J. A. Stiles and Company. You are personally known to Mr. F. C. Warner, president of the Merchants' Bank of Chicago. Write the best letter possible in your own interest to the Walton and Hayes Company.

4. You own a house at 1224 Commonwealth Ave., Boston, Massachusetts, your own address being Newton, Massachusetts. Miss Fannie Langford, of Brookline, Massachusetts, wants to rent this property, and has written to you of her desire to do so, asking terms of rental. You reply to her letter to-day, stating you will be pleased to lease the house to her at \$60 a month, in addition to the water rate of \$20 a year. As you have no personal acquaintance with her, you ask her for references.
5. Mrs. Winston Phillips (Annie W. Phillips) of New Rochelle, New York, has occasion to communicate with Walter L. Dyer, real estate agent, 1012 Broadway, New York, from whom she rents her house. She wishes to inform him that certain repairs to the roof are necessary because of damages occasioned by a recent wind storm. Suppose yourself to be Mrs. Phillips, and write a courteous letter to Mr. Dyer, calling his attention to the damage and asking that repairs be made promptly.
6. You are in your last year at high school and contemplate going to college; if a boy, to Yale, and if a girl, to

Bryn Mawr. Address a letter to the Registrar of Yale University, New Haven, Connecticut, or to the Registrar of Bryn Mawr College, Bryn Mawr, Pennsylvania, asking that a catalogue of the institution be sent to you, and inquiring whether you can be admitted on certificate or whether an examination will be required. Write this letter as though you were a resident of Easton, Maryland, and a student in the Easton High School.

7. As treasurer of the Browning Society of Springfield, Ohio, you find a number of the members to be delinquent in the payment of their annual dues. Among these is Mr. O. R. Witherby, who has not paid his dues for two years. Write him a courteous but firm letter, calling his attention to his delinquency and to the rules of the society which do not permit of an arrearage of more than two years. Express the hope that he will hasten to place himself again in good standing by remitting to you immediately.
8. Lawyer John B. Dickson, 839 Market Street, San Francisco, California, has written to you at 430 Pine Street, Oakland, California, reminding you that you have failed to pay your house rent for the past two months, and that the account has been placed in his hands for collection. Reply to his letter expressing regret at the non-payment of rent, offering as excuses abnormally heavy expenses during that time, due to serious illness in your family, and reduced income because two of the supporting members were unable to work. Ask the favor of another month's extension, stating that at the end of this time you hope to be in a position to pay all rent due.

9. You have come into possession of \$1000 for which you have no immediate need, and you have decided to invest it. Write a letter to J. S. Burt and Company, Baltimore, Maryland, specialists in bonds and mortgages, asking their professional advice in the matter. Assure them that you want to avoid all risks of a speculative nature, and that the first element of the investment should be stability of principal. Ask them to favor you with a prompt reply and to include in it their rates of commission both for initial investment and for the collection of interest. You live in Roland Park, Baltimore.
10. The firm of Wayne Brothers, Milwaukee, Wisconsin, has just rendered to you a bill for your January purchases of general merchandise. This bill contains two errors: the Jan. 5 purchase of 10 yards of silk is charged at \$1.00 a yard instead of 90¢ a yard, and the shoes returned on Jan. 8 are credited at \$3.50 instead of at \$4.00. Write a letter to accompany the return of this bill to Wayne Brothers, requesting a prompt adjustment of the account. Your address is 1619 Jackson Boulevard, Milwaukee. (Inclose this letter in an envelope properly addressed.)
11. Write a note of introduction for your friend, Henry A. Morley, who is about to spend a week in Washington, D. C., this being his first visit there. Address the note to your acquaintance, George Quinton, who lives at 310 Pennsylvania Avenue, Washington, D. C. (Inclose this letter in an envelope properly addressed.)
12. John Kent has been a chauffeur in your service for two years. You are dispensing with your motor car,

and have no further use for him. Write Mr. Kent a letter of recommendation which he can use in a general way to find new employment.

13. Write a letter of recommendation for Ida L. Williams, who has been a governess in your family for ten years. As the children are now grown to school age and are to be placed in private schools, Miss Williams is no longer needed. She is a woman of broad education, social refinement, and forceful character. Address your letter to Mrs. L. M. Funston, who is a stranger to you but who, you have heard, is desirous of engaging the services of a governess. (Use a note sheet, fold and inclose it in an envelope properly addressed.)
14. While your father, Peterson Bond, is attending to business matters in St. Louis, Missouri, your mother falls seriously ill. Dispatch a telegram of not more than ten words to your father, informing him of the illness and asking him to come home at once.
15. You recently purchased from the Purcell Company, Chicago, Illinois, by mail order, 10 yards of black silk. You find you require 2 yards more, and being in haste, you telegraph, specifying that the goods be sent by mail, and charged to your account. Prepare the message not to exceed ten words.
16. You are in Southampton, England, ready to take passage back to New York but are unexpectedly delayed. In order to allay anxiety on the part of your family, whose address is 4509 Sixth Avenue, New York, you cable these facts to your father. Prepare the cablegram not to exceed six words.

PART VII

PERSONAL ACCOUNT RECORDS

XXXIII. CASH RECORDS

One of the primary necessities of every well-ordered life is an understanding and use of some simple system of recording personal business transactions. Every one has receipts and expenditures of money, the wise or unwise employment of which vitally affects success in life.

The following pages present a method of personal accounts adequate to the needs of most people in private life.

Cash Records. Statements of receipts and expenditures may be simple or complex. Commercial accounting in its diversified forms is adapted to the affairs of people who make a business of buying and selling for profit; while personal or household accounting is especially adapted to the simpler needs of people whose income is derived from labor or invested wealth.

In non-commercial, as in commercial accounting, one of the most important elements is the **cash book** for recording money received and paid out. A simple cash book need be nothing more than a book ruled so as to provide columns for (1) the date of the transaction, (2) a statement of the source of the money received, or of the purpose for which money is paid out, (3) the amount received, and

(4) the amount paid out. The following example illustrates this form and a series of entries:

Cash Book

<i>Date</i>	<i>Description of Transaction</i>	<i>Received</i>	<i>Paid out</i>
1918 May	1 Received salary, month of April	100	
	2 Paid rent of rooms, one month in advance		16
	3 Table board, two weeks in advance		10
	5 Rec'd April salary, night school	50	
	6 Carfare and miscellaneous expenses		3
	7 Philadelphia Orchestra concert		2
	8 Balance on hand		99
		130	130
May	9 Balance	99	

If the items of receipt and expenditure are carefully written down in accordance with the above form, it is easy to find out how much money has been received and how much has been paid out, by merely adding up the items in the two columns. It is easy also to ascertain how much money ought to be on hand as a balance, by subtracting the total of the paid-out column from the total of the received column.

In the above illustration the record shows that \$130 was received in the course of the week and that \$31 was paid out. The difference between the two amounts, it will be noted, is set down in red ink (here represented by heavy writing) as a balance on hand in the paid-out column. As the balance is distinguished from the entries denoting actual payment by color of ink, it may be summed up with the items of payment as a test of the previous sub-

traction, for if the subtraction was correctly made, the sum of the paid-out column plus the balance on hand must equal the total of the received column.

Exercise 1. Draw up a simple cash-book form according to the model shown on page 166. Enter the following cash transactions, find the balance of cash on hand at the end of each week, and rule up the form. This process is commonly designated as **balancing** and **closing** the cash book.

- March 1 Student received one month's salary in cash, \$100.
2 Paid one month's rent of room, \$12.
3 Paid one month's table board in advance, \$20.
4 Received cash for extra work, \$15.
5 Paid laundry bill in cash, \$2.50.
6 Bought a suit of clothes for cash, \$25.

Directions. As it is the end of the week, balance and close, being careful to enter the balance according to the example above and to rule according to the form.

- March 8 Bought a book costing \$1.50.
9 Received as a gift from home, \$50.
10 Paid for mending shoes, \$1.25.
March 10 Bought a new hat costing \$4.
10 Paid for instruction in music, \$20.
11 Paid for writing materials, \$.65.
11 Bought magazine, \$.15.
12 Received for extra work, \$2.50.
13 Paid for theater tickets, \$2.
14 Entertained a friend at luncheon, \$2.15.

Directions. Enter the above, balance and close the cash book exercise, as before.

Classified Expenditures. A careful manager, however, will not be satisfied with the use of the simple cash book alone. Receipts and expenditures must be classified in order to reveal the answer to the important question, "Where did the money go?" In personal accounting,

for example, payments are constantly being made for clothing, food, amusements, and other purposes, and it is evident that not only the interest but also the usefulness and the influence of the cash record will be emphasized by grouping expenditures of the same kind together.

A classification of expenditures can be made in a simple way by making use of another little blank book, setting aside a page for each type of expenditure and entering upon the page the nature and the amount of expense, after payment is entered in the cash book. At the end of the week or the month the pages may be summed up, and the result will be the amount spent during this time in each classification. The following are two examples of classification pages, one covering "Clothing" and the other "Table Expense:"

Clothing

June	4	Suit for Henry	22	
	5	Shoes for Clara	3	
	6	Necktie for Charles		75
		Total	25	75

Table Expense

June	4	Sugar ^{75¢} Flour ^{\$1.50}	2	25
	5	Meat bill to date	3	25
	6	Oranges		60
		Total	6	10

Exercise 2. Classify the following expenditures, as suggested above, by grouping them on separate pages, entitling the pages

respectively: "Clothing," "Table Expense," "Light and Heat," "Laundry," "Transportation," and "Miscellaneous."

- April 2 Bought 1 ton of coal, \$7.50; crackers, \$.50.
 3 Bought 1 bbl. flour, \$4.50.
 4 Bought oranges, \$.60; sugar, \$.60; berries, \$.20; street
 car tickets, \$1.00.
 5 Paid for dress goods, \$11.50; bananas, \$.20.
 6 Paid daily paper for week, \$.11; theater tickets, \$3;
 oatmeal, \$.25; suit for Henry, \$22; shoes for Clara,
 \$3.
 7 Paid gas bill, \$5.75; collars and ties for Charles, \$1.25;
 laundry, \$1.36; transportation tickets, \$1.
 8 Paid picnic expenses, \$2.85; magazine, \$.35; meat
 bill, \$2.85; potatoes, \$1.50; paper and pens, \$.60.

Directions. Sum up the expenditures entered on each page to determine the amount spent under each heading.

XXXIV. CLASSIFICATION CASH BOOK

A **classification** of cash expenditures can be made conveniently and systematically by appending to the cash book record a series of columns to take the place of the extra pages to which reference was made in the preceding chapter. By this method, the amounts of expenditure in the various directions can be compared and studied to good advantage and as a result unduly large unproductive expenditures may be avoided in the future.

In the following example in personal expenditures, payments are classified according to "Rent," "Food," "Clothing," "Laundry," "Transportation," "Pleasure," and "Miscellaneous." Columns are attached to the cash book form corresponding with this classification. As an expenditure is made, the amount is entered not only in the paid-out column but also in the classification column to which the

payment belongs. Thus, in the illustration given below, the record shows that out of an expenditure of \$75.55, \$16 was spent for room rent, \$10 for food, \$40.50 for clothing, \$.75 for laundry, \$2.10 for transportation, \$2 for pleasure, and \$4.20 for miscellaneous items:

Cash Book with Classification of Expenses

Date	Description of Transaction	Cash		Classification								Total
		Recd	Paid	Rent	Food	Cloth	Laundry	Transport	Pleasure	Miscel		
Sept 1	Balance	100										
1	Room rent - one month		16	16								
1	Table board - two weeks		10		10							
2	Suit - Embick & Co		35			35						
2	Recd salary - August	100										
3	Laundry		75				75					
3	Shoes 4 ⁰⁰ Gloves 1 ⁰⁰		5 50			5 50						
6	Carfare - week		2 10					2 10				
6	Theater		2						2			
6	Sundries		4 20								4 20	
6	Balance on hand		124 45									
		200	200	16	10	40 50	75	2 10	2	4 20	75 55	
Sept 8	Balance	124 45										

Exercise 3. Carefully rule a sheet of paper according to the preceding form, making sure to provide a column for the date and a sufficiently wide space for a description of the transactions; a column for the receipt and another for the payment of money; ten columns for a classification of expenditures; and a column for totals. Enter the titles at the top of the column as shown in the model. Record the following cash transactions in the cash book section, and as you do so, enter the item of expenditure in the proper classification column:

- May 1 Received cash for one week's wages, \$18; paid board for one week, \$5.
- 2 Paid for daily paper, including Sunday edition, \$.77; bought suit of underwear, \$1.60.
- 3 Bought collars, \$1.50; paid laundry bill, \$.78; received for playing piano in theater orchestra, \$15.
- 4 Bought suit of clothes, \$18; paid for street car tickets, \$1; bought necktie, \$1.

- 5 Bought birthday gift for Richard, \$1.50; paid for magazine, \$.30; paid for boat ride, \$.50.
- 6 Paid for baseball ticket, \$.50.

Directions. Balance the cash record for the week by writing in red ink "May 6, Balance on hand, \$—," the difference between the cash received and the cash payment columns; and rule in accordance with the model shown on page 170, extending the single ruling through the classification sheet. Then sum up the various classification columns and carry the total of all expenditures forward in the "Total" column.

Household Classification Cash Book. The cash book and classification of expenses described above may be readily adapted to the requirements of household accounts by modifying the classification of expenses to suit the character of the expenditures of a household. The classification must be broadened appropriately to include in addition to the columns of the model, columns for heat, light, wages, furniture, insurance, etc. It may be made still more comprehensive by the addition of other columns devoted to special expenditures, but, as set forth, the classification presents a distribution of the cost of household maintenance sufficient to enable the head of the household to account definitely for funds paid out.

Exercise 4. Rule a sheet of paper according to the household classification cash book form shown on the preceding page, providing a column for the date and a space for a description of the transactions; a column for the receipt and another for the payment of money; eleven columns for classification purposes; and a column for totals. Enter the column titles in accordance with the classification sheet already shown. Record the following household cash transactions and classify the expenditures:

- June 1 Received cash, \$117.21.
2 Paid for upholstering 3 parlor chairs, \$22.50; bought

- outing hat, \$5; bought 6 Turkish towels, \$1.50; bought bed sheeting, \$5.40.
- 3 Bought a copy of *The Harvester*, \$1.35.
 - 5 Paid weekly meat and produce bill amounting to \$13.00.
 - 6 Paid weekly bills as follows: groceries, \$5.50; bread and rolls, \$.77; milk and cream, \$1.12; ice, \$.70; laundry, \$1.65.

Directions. Balance and close the record in the same way as in the preceding personal classification cash record and carry down the balance of cash on hand in black ink as "June 8, Balance on hand, \$—," entering the amount in the cash received column. Enter the totals in black ink at the foot of the classification columns as heretofore.

- June 8 Paid for theater tickets, \$4; received cash, \$100; bought rain coat, \$10.
- 9 Paid for street car tickets, \$2; paid for dress goods, \$16.25; luncheon, \$.65.
 - 10 Bought 2 tons of coal, \$14; paid for shoes, \$5; bought an American history, \$3.50.
 - 11 Paid weekly meat and produce bill amounting to \$7.60.
 - 12 Paid weekly bills as follows: groceries, \$4.50; laundry, \$2.24; bread and rolls, \$.75; ice, \$.80; and milk and cream, \$1.20.

Directions. In a continuous record it is desirable to carry forward from week to week the total expenditure in each classification group. To do this, add up the items of expenditure in each column in pencil, and then add the result to the total of expenditure in the column at the end of the preceding week. Then single rule and enter the new total in black ink as heretofore. By this method the total in each classification column will represent the total expenditure under the column head to date.

- June 15 Bought 1 doz. handkerchiefs, \$3; bought alarm clock, \$2.50; paid wages to servant, \$25.
- 17 Paid taxes, \$50.
 - 18 Bought old English sideboard, \$75.

- 19 Paid weekly meat and produce bill amounting to \$7.63.
- 20 Settled other weekly bills as follows: groceries, \$9.70; milk and cream, \$1.36; bread and rolls, \$.80; ice, \$.70; laundry, \$1.97. Also paid gas bill to date, \$4.40.

Directions. Balance and close the record in accordance with preceding instructions.

XXXV. ELEMENTARY PRINCIPLES OF ACCOUNTING

So far the account forms that have been suggested are adapted particularly to recording cash transactions. When transactions take place **on account**, that is, upon the basis of an arrangement for future settlement, the cash record must often be supplemented by a system of ledger records in order to summarize the condition of business affairs. This enables us to determine the net results of our business activities: whether there has been a profit or a loss; the relationship between debts, or liabilities, and resources, or assets; and the net worth. This use of more formal methods of record keeping necessitates the employment of the fundamental principles of accounting, and therefore requires an elementary acquaintance with them.

Elementary Principles of Accounting. At the basis of accounting is the conception that in every transaction, or trade, value is received on the one hand and given up on the other. The side receiving value is spoken of as the **debit side** and the one giving up value as the **credit side**. A record of debits and credits pertaining to the same person, thing, or phase of business is known as an **account**. This conception gives rise to two elementary accounting ideas:

account spaces in his ledger as follows: one to cover the transaction with James Marshall and Company, on which his credit is shown; and another to show the investment in furniture and equipment, a part of which the desk becomes. These accounts are shown below:

James Marshall and Company									
Debit					Credit				
1918					1918 Sept. 2	Desk		25	

Furniture and Equipment									
Debit					Credit				
1918 Sept. 2	Desk		25		1918				

As value to the amount of \$25 has been received by the furniture and equipment, Mr. Henry debits his Furniture and Equipment account for the amount, as shown above, indicating the date of the transaction, the nature of the value received, and the amount of value received; at the same time he credits the James Marshall and Company account, similarly showing the date of the transaction, the nature of the value given, and the amount of value given. A glance at the two accounts thus reveals that Mr. Henry has put into furniture and equipment value to the amount of \$25 and that James Marshall and Company has given up value on account, that is, has a credit or an unpaid claim against Mr. Henry of the same amount.

Directions. Write the title "Expense" over a card. Debit the expense account to which the expenditure must be charged and credit the cash account with the amount paid out.

[illegible]

Feb. 6. Received weekly salary in cash, \$40.

Directions. Write the title "Earnings" over a card. Debit the cash account for the cash received, and credit the earnings account with the amount of value produced.

Earnings									
					1918				
					Feb. 6	Salary			40
					8	Short story			100
					15	Salary			40

Feb. 6. Paid table board for week, \$8.

Directions. Debit the expense account for the payment, and credit the cash account with it.

Feb. 8. Received cash for a short story accepted by a magazine, \$100.

Directions. Debit the cash account for the amount received, and credit the earnings account for the amount earned.

[illegible]

Feb. 13. Lent \$100 in cash to John Martin.

Directions. Write "John Martin" over a card. Debit the account of John Martin with the amount lent and credit the cash account with the same amount.

[illegible]

Feb. 15. Received weekly salary in cash, \$40.

Directions. Debit the cash account for the amount received, and credit the earnings with the amount earned.

Feb. 15. Paid table board in cash, \$8.

Directions. Debit the expense account with the payment, and credit the cash account with it.

Closing the Ledger Accounts. In order to find the profit or loss that results from a series of transactions, and to

determine what you are worth, it is necessary to **close** the set of accounts. The first step in this direction is the making of a **trial balance**. This is simply a statement of the total debits and total credits as entered on the several ledger accounts. In this connection it must be borne in mind that all individual debits among the entries were accompanied by parallel credits, and that therefore the total of all debits must equal the total of all credits.

Directions. Take a sheet of paper, rule it according to the form shown below, and write the title "Trial Balance" and the date at the top. Then write the titles of all accounts that appear in the ledger set as shown by the trial balance following. Carry the total debits and credits from each account opposite the name of the account on the trial balance, using the left-hand or debit column of the trial balance for the debits, and the right-hand or credit column for the credits. Add both columns of the trial balance. If all the work has been carefully done, the column totals will be equal.

<i>Trial Balance, Feb. 16, 1918</i>			
	<i>Name of Account</i>	<i>Debit</i>	<i>Credit</i>
	<i>Student</i>		<i>1500</i>
	<i>Cash</i>	<i>1680</i>	<i>146</i>
	<i>Earnings</i>		<i>180</i>
	<i>Expense</i>	<i>46</i>	
	<i>Furniture and Equipment</i>	<i>45</i>	
	<i>Albert Price</i>		<i>10</i>
	<i>Richard Wharton</i>		<i>35</i>
	<i>John Martin</i>	<i>100</i>	
		<i>1871</i>	<i>1871</i>

The next step in the process is closing the individual ledger accounts and transferring the profit or loss and the resources or liabilities ascertained to two summary accounts, entitled respectively "Profit and Loss" and "Resources and Liabilities," made a part of the set in order to determine net profit and the net worth.

Directions. Close the "Cash" account as follows: Ascertain the difference between the credit and the debit columns of the account, and, in practice, check the difference thus found with the actual amount of cash on hand; for this difference and the actual amount of cash on hand must agree. Write in red ink on the credit side of the account, "Feb. 16, Balance, \$1534." Sum up both the debit and the credit columns, entering the totals evenly on both sides of the account and ruling carefully in accordance with the model below:

Cash									
1918					1918				
Feb. 1	Investment		1500		Feb. 2	Rent		30	
6	Salary		40		6	Table board		8	
8	Short story		100		13	Loan John Martin		100	
15	Salary		40		15	Table board		8	
					16	Balance		1534	
			1680					1680	
Feb. 16	Balance		1534						

Close the "Expense" account by finding the total of all expense entries and then writing on the credit side of the account in red ink "Feb. 16, Loss, \$46." Foot and rule the account as in the case of preceding ones.

Expense									
1918					1918				
Feb. 2	Rent		30		Feb. 16	Loss		46	
6	Table board		8						
15	" "		8						
			46					46	

All the book accounts in the set are now closed. In accordance with practice, the remaining personal accounts will not be closed until settlement balances them.

Determining Net Profit or Loss and Net Worth. Net profit or loss is determined by assembling the profits and the losses shown by the accounts in the "Profit and Loss" account which has already been opened. Profits are entered on the **right** side and losses on the left. It is important to note that when items are transferred from one account to another, they are carried to the opposite side of the other account in black ink.

Directions. On referring back to the accounts it will be seen that the "Earnings" account shows a gain of \$180. Enter this gain on the right side of the "Profit and Loss" account in black ink, "Feb. 16, Earnings, \$180." The "Expense" account and the "Furniture and Equipment" account show losses. Enter these losses on the left side of the "Profit and Loss" account in black ink respectively, "Feb. 16, Expense, \$46" and "Feb. 16, Furniture and Equipment, \$10." The difference between the two sides of the "Profit and Loss" account shows a net profit of \$124. The account is now balanced by writing in red ink on the left side "Feb. 16, Net Profit, \$124," and is closed by summing up both sides and ruling similarly to previous accounts. Completed, this account appears as follows:

Profit and Loss			
1918			1918
Feb 16	Expense	46	Feb 16
	Furniture & Equipment	10	Earnings
16	Net Profit	124	180
		180	
			180

showing a resource is that of John Martin, who owes the student \$100. Enter this on left side of the "Resources and Liabilities" account, "Feb. 16, John Martin, \$100." The accounts of Richard Wharton and Albert Price each show a liability. Enter them on the right side of the "Resources and Liabilities" account in black ink, respectively: "Feb. 16, Richard Wharton, \$35" and "Feb. 16, Albert Price, \$10."

The difference between the student's resources and liabilities, according to the "Resources and Liabilities" account, now shows itself to be \$1624, thereby confirming the student's net worth as established by adding to the original \$1500, upon the basis of which the transactions were started, the \$124 gained as a result of the transactions.

To balance and close the "Resources and Liabilities" account, enter on the right side in red ink "Feb. 16, Net Worth, \$1624," sum up, and rule as usual with the other accounts.

The final step in closing the set of accounts leads back to the student's own account. To balance and close this account, enter on the right side in black ink under "Feb. 1, Cash, \$1500," the amount

Student											
1918	Feb. 16	Net Worth	1624	1918	Feb. 1	Cash	1500				
					16	Net Profit	124				
			1624				1624				
					Feb. 16	Net Worth	1624				

of the profit, "Feb. 16, Net Profit, \$124" and on the left side in red ink, "Feb. 16, Net Worth, \$1624." Foot and rule the account in the proper way.

Exercise 5. According to preceding illustrations and instructions, organize a set of accounts to cover the transactions following:

- March 1 Start record with cash on hand, \$2000.
 2 Paid house rent in cash, \$30.
 4 Received weekly salary in cash, \$50.

- March 6 Paid grocery and provision bill for week, \$9.
 8 Received for monograph accepted by newspaper, \$75.
 9 Bought a living-room chair on account from the
 Hardwood Furniture Company, \$50.
 11 Loaned \$50 in cash to Paul Jones.
 12 Bought a living-room table on account from Putnam
 and Company, \$18.
 12 Received weekly salary in cash, \$50.
 15 Paid grocery and provision bill for week, \$12.

Close the accounts and determine how much ahead you are in cash and resources.

- March 16 Received from John Martin in settlement of his loan
 of Feb. 13, \$100.
 17 Paid tailor for suit of clothes, \$35.
 18 Loaned to Paul Jones an additional \$50 on his
 promissory note.

Directions. As this loan was made on the basis of a promissory note payable to you, an account must be opened with notes receivable. The transaction practically amounts to a purchase of the promissory note. Therefore open a "Notes Receivable" account, debiting it with the face amount of the note, and credit the cash account with the amount.

- 20 Received weekly salary in cash, \$50.
 22 Paid grocery and provision bill for week, \$15.
 23 Paid for theater tickets, \$3.
 24 Received for article accepted by magazine, \$100.
 25 Contributed to Red Cross, \$5.

Directions. Open an account, entitling it "Benevolence," and debit it with the amount contributed. Credit the cash account with the same amount.

- 26 Paid balance due the Hardwood Furniture Company,
 \$50.

Close the accounts as before and determine how much ahead you are in cash and resources, keeping in mind that the notes receivable account will show a resource and the benevolence account technically a loss.

SUPPLEMENTARY QUESTIONS

GENERAL PRINCIPLES OF EXCHANGE, MONEY, AND CREDIT

What is business exchange? What are the three main stages in the development of business exchange? What is barter? What characteristics make barter less and less suitable as the business community expands? In what period of the history of the United States did barter prevail? Give some illustrations. What was introduced to overcome the shortcomings of barter as a basis of exchange?

What is a money commodity? How does it happen that so many ordinary commodities like cattle, furs, and even iron could be used as money?

What was used as money in the early days of Israel? In ancient Greece? In early Rome? In the early colonial days of Virginia? Of Massachusetts? What makes such commodities unsuitable as money, except under unusual conditions?

What are primarily the functions of money? What do we mean when we speak of "money as a medium of exchange"? As a "standard of deferred payment"? As a "common denominator," in which is expressed the values of other commodities? What commodities best serve these purposes? What characteristics make the precious metals most suitable as a money commodity? Why does gold show advantages over silver? What is the difference between monometallism and bimetallism? What countries in the world are on a monometallic basis? For what purposes are baser metals, like copper and nickel, used as money? Why would it be inconvenient and sometimes im-

possible to make use of actual money every time a transaction is entered into? How many times greater than our money supply is the amount of business exchange in the United States?

What is credit? Upon what two judgments does it rest? When is the credit of an individual said to be good? When is it said to be bad? What effect upon the organization of the business world has the widespread use of credit? What great institutions are primarily the outgrowth of credit transactions?

MONEY SYSTEM OF THE UNITED STATES

How largely is money used in the daily transactions of the people of the United States, and why is it a very essential part of our economic organization?

What is a dollar? Is it still made as a coin? Is its value fixed or variable? Explain.

What is meant by the term "price"? Name the unit in which the values and prices of commodities are expressed in every leading country of the world. What is subsidiary coinage? What metals are used for subsidiary coins in the United States? What are the silver coins? The nickel coins? The copper coins? What fixes the purchasing power of subsidiary coins in exchange? How much silver is there in a dollar? What is the ratio between the silver dollar and the gold dollar? Did the plan to put this ratio on a "16 to 1" basis signify the cheapening or the increasing power of silver in exchange?

What is paper money? What is meant by the term "fiat" or "token" money? How many kinds of paper money are issued in the United States? Explain the nature of the contract underlying a gold certificate; a silver certificate; a treasury note; a greenback; a national bank note; a Federal reserve note. What is an emergency currency? How do Federal reserve notes serve the purposes of emergency currency? Explain why it is that when there is a scarcity of money the amount of Federal reserve notes will automatically increase.

What are the difficulties in the way of unlimited issues of greenbacks? Explain Gresham's law that "poor money always drives out good money." What is legal tender money? What is the legal tender money of the United States at the present time? If you were entering into a long-time contract, what money should you select for settlement? Why have contracts based on gold advantages over those based on legal tender?

BILLS, INVOICES, AND STATEMENTS OF ACCOUNT

What is meant by doing business on account? What are some of the personal requisites for doing business on account? Name some of the business instruments or papers used to bring about payment and settlements of credit transactions.

What is a bill? What is an invoice? What is a statement of account? In what respect is a distinction drawn between bills and invoices? How does the statement of account differ in form from the other two? What should a bill or an invoice show?

Is there any advantage in the use of "To Henry S. Johnson, Dr." over "Bought of Henry S. Johnson" as a heading for bills calling attention to indebtedness not only for material things but for services as well?

How should a bill be receipted on payment? What should the signature show if some one other than the creditor receives payment?

Explain the meaning of discounts. What is the difference between a cash and a trade discount? What is the purpose of allowing cash discounts and trade discounts? How are cash discounts indicated on a billhead? How is a deduction on account of discount indicated on a bill at settlement?

What should a statement of account show? Should it be an itemized statement of indebtedness?

What is an assignment? What is the form of an assignment contract?

COMMERCIAL DRAFTS

What is a commercial draft? What is its significance in business transactions? What is the difference between a two-party and a three-party draft? What is the difference between a sight draft and a time draft? Who is the drawer of a draft? Who is the drawee? Who is the payee? What is an acceptance? What is the legal responsibility of the acceptor? What is the difference in procedure on the part of the drawee when presented with a sight draft or a time draft? What difference does it make whether the draft calls for payment at "ten days' sight" or "ten days after date"?

What is meant by "dishonoring a draft"? What is a protest? Is a draft which has not been accepted subject to protest proceedings? Before what official of the government is protest made? What is the approximate cost of a protest?

What are the steps in the collection of a draft? Why should the drawee be notified before a draft is drawn on him? What is done with a two-party draft to secure its collection and payment? During collection, who is responsible for the amount of the draft and for incidental charges accruing in the course of collection? Why are three-party drafts of but little use at the present time? When drawn, to whom should the draft be sent — to the payee or to the drawee? What steps must then be taken to secure its collection?

What is a trade acceptance? What business advantages accrue from the use of trade acceptances?

PROMISSORY NOTES

What is a promissory note? What is the form of a simple promissory note? Who is the maker? The payee? Under what conditions of business are promissory notes used? Into what two classifications may promissory notes be divided on the basis of time? What is a demand note? A call note? When

is each payable? What is the usual duration of a commercial time note?

What is a joint note? What is a joint and several note? What is the legal difference of liability of a signer in a joint note and in a joint and several note?

What is security? What circumstances of the maker at times make security necessary? What is personal security? Collateral security? Lien security? State some of the advantages and some of the disadvantages of each kind of security. Under what circumstances would each be best adapted for use?

What notes are the outgrowth of personal security? What is the form by which personal security is indicated on an accommodation note? On an indorsed note? On a guaranteed note? How does the old-fashioned type of accommodation paper differ from the accommodation paper in use among banks of the present day?

What notes are the outgrowth of collateral security? What constitutes collateral security? What is the nature of collateral security? What is the form of a collateral note? What four particular conditions form a part of the collateral note contract? How long, generally speaking, does the maker of a collateral note have to make good a depreciation in the security value of collateral?

What notes are the outgrowth of lien security? What is a judgment note? What are the main provisions of the supplementary contract attaching to a judgment note? What is meant by "confession of judgment for principal and cost"? By "waiving rights to inquisition and error"? By "laws exempting property"? What is the difference between a judgment note and a judgment note with power of attorney? Why is a judgment note with power of attorney particularly drastic in its provisions? Under what conditions should it be used? From the standpoint of the payee, what steps must be taken at the county recorder's office to make the claim a lien against the property of the maker? What is the effect of recording a

judgment note on the ability of the maker freely to transfer property in an exchange? Why does a credit agency regard an individual who has resorted to a general use of judgment notes as in the last throes of business instability?

INDORSEMENT AND PROTEST

What is meant by "indorsement"? What is the legal significance of indorsement? What are the three important types of indorsement? Where should the indorsement be written on the instrument of exchange? What is indorsement in blank? Indorsement in full? Indorsement for a particular purpose? To whom does indorsement in blank make the instrument payable? Why is indorsement in blank questionable?

What is a protest? Under what circumstances should protest be resorted to? What steps must be taken by the holder of the instrument in a protest proceeding? How soon after the non-fulfillment of the promise must these steps be taken? What formal action is necessary by a notary public or other officer of record in protest proceedings? What responsibility rests upon the indorser of protested instruments? What is the order of liability of indorsers?

GENERAL PRINCIPLES OF BANKING AND SAVINGS INSTITUTIONS

What is the present function of the banker? What was his function several centuries ago? What was the work of the money-changers of Biblical times? What important extra services did the goldsmiths perform in the Middle Ages in England? What was the primary work done by the Bank of Amsterdam and the Bank of Hamburg in the fourteenth century? What condition in social, economic, and political affairs in Europe during the Middle Ages, and even up to the last century, made the work of banking largely a matter of safe-keeping and money-changing? Why is it that even to this day we look upon banks simply as safe places to keep our money?

What conditions have greatly modified the work of banking during the last century? How has the widespread use of credit affected the position of banking in the community? What two important lines of banking have been added in modern times to the former activities of banks?

In a theoretical sense, into what main groups of banking institutions is the field of banking subdivided? What is the reason for this subdivision?

What are the special lines of activity of commercial banks? What is meant by a "regular channel for the settlement of debt by credit exchange," by "collection of claims arising under promissory notes and commercial drafts," by "granting short-time loans"? Are there any other lines of work that are performed by commercial banks?

What are savings banks and savings funds? How does the work of this type of bank differ from the work of the commercial group? What are the chief lines of savings bank activities? Why is the nature of this type of banking such that funds in its hands must be held for more or less definite and long periods of time?

What are coöperative banks? What are building and loan associations? In what respects do these institutions differ from savings banks?

What are private banks? What rôle did private banks play in the past? How has the change in the banking world affected the activities of private banks? What are the primary functions of the private banks to-day? Why is the field of foreign banking in the United States more or less closely associated with private banks? What are trust companies? In what respects do they differ from banks?

COMMERCIAL BANKS

What accounts for the present importance of commercial banks? Cite the functions of commercial banks. What advantage is found in the use of checks? How does a commercial

bank perform a highly important function in collecting promissory notes, drafts, and other instruments of exchange? What is meant by taking promissory notes and other evidences of debt at discount? In what sense does a commercial bank broaden the power of individual or personal credit? Why is it true that the personal credit of an individual is more far-reaching when used through the channels of the commercial banking system than when applied directly?

What was the condition of banking in the United States prior to 1863? What was the reason that banking relations fell into such a chaotic condition? What were the popularly called "wild-cat banks"? The so-called "red dog banks"? Where did they thrive? How did they bring all banking into disrepute? What was the "Suffolk System of Massachusetts"? What was the "Safety Fund System of New York"? Give some reasons why these systems did much to safeguard banking, but were helpless to correct the real faults of the time.

What is the National Bank Act? When was it passed? For what two important purposes was it passed? How did it affect existing banks? How are members of the National Banking System designated? What are the provisions of the law that aim at permitting only men of capability and integrity to enter the banking business? What are the provisions of the law that aim at protecting the deposits of a depositor against losses due to mismanagement? How does the possession of initial capital partly perform this function? To what extent are stockholders and directors held personally liable for losses of depositors? What is a reserve? To what extent does the law require banks to maintain reserves? On what principle does the government feel warranted in designating certain cities to be reserve cities, and what economic situation makes it possible to further designate New York, Chicago, and St. Louis as central reserve cities?

What constant supervision by government authorities is maintained over members of the National Banking System?

In what important respects did fifty years of experience with the National Bank Act show defects in the National Banking System? Why was the national bank note currency inelastic? What difficulty does the community suffer from inelastic currency? How are times of money stringency caused by such a currency? Why will money stringency sometimes develop into a panic? What action did Congress take on this course in December, 1913? What is the object of the Federal reserve system?

What is a Federal reserve bank? With whom is it authorized to do business? What important changes in our National Banking System were made by the Federal Reserve Act? What were the provisions with respect to the issue of bank notes? What is a Federal reserve note? What is the security back of a Federal note? What leads automatically to the retirement of these notes when demand for them ceases?

What provisions in the Federal Reserve Act change the basis of reserves? Into how many districts is the United States divided for reserve purposes? How does the presence of a Federal reserve bank assist the money situation in a community? How do the provisions of the reserve affect the rural districts? What was there in the old National Bank Act that stood in the way of a farmer securing the necessary current funds while his crops were in process of maturing?

DEPOSITING IN A COMMERCIAL BANK

How is a commercial bank organized? What difference is there between the organization of a state bank and a national bank? What is the function of the board of directors of a bank? Of the president? Of the cashier? To what extent do customers of commercial banks come into contact with the president? With the cashier? What is the particular work of the receiving teller and of the paying teller of a bank? What service is performed by the credit department?

What steps must be taken in opening a commercial bank account? Why is direct introduction essential? Why is a copy of the customer's signature essential? What is a pass book? In what way has the pass book system been supplanted by other types of deposit record in certain sections of the country? What is meant by "balancing a pass book"?

What principle of commercial banking limits the nature of the items that may be deposited? What items fall within the scope of a commercial bank's deposits?

What is a deposit slip? How should items be listed on the deposit slip? What is the reason for distinguishing between out-of-town deposits and in-town deposits? How should out-of-town deposits be listed? How should in-town deposits be listed? How should the items of deposit be arranged when handed to the receiving teller with the deposit slip?

COMMERCIAL BANK CHECKS

What is a customer's check? Why have banks adopted regular forms of checks? What is safety paper? Why is it used in check books?

In what respects must care be exercised in the filling in of a check form? What is the effect of an undated check upon its legality? What is the effect of a postdated check? Is a check dated on Sunday valid? How should the amount be filled in so as to prevent "raising"? When a difference between the written amount and the amount in figures occurs, which is binding upon the drawer? Of what importance is the phrase "pay to the order of"? If the signature is not the same as that originally filed with the bank, is the check a good order on the funds in the bank?

Of what use is the stub of a check? What information does it generally record? Why is regularity in filling out the stub of a check important? What is an overdrawn account? Why should the stub and the check be numbered alike? Of what particular use is such numbering?

When money is to be withdrawn from a bank by a depositor in person, how should it be drawn?

COMMERCIAL BANK CERTIFIED CHECKS AND OTHER INSTRUMENTS

Under what circumstances will the ordinary customer's check be unsatisfactory in exchange? What is a certified check? From the standpoint of credit exchange, why is the certified check better than the customer's check? What feature distinguishes the certified check? How may a certified check be obtained? What steps are taken at once by the bank when a certified check is secured by a customer? To whose order should it be made payable? If a certified check is not used, what should be done with it? What effect on the customer's account would the loss or destruction of a certified check have?

What is a cashier's check? How does it differ from a certified check? From a customer's check? Why has it advantages over the customer's check? Under what circumstances is it well to use a cashier's check?

What is a bank draft? How does a bank draft differ from a cashier's check? Under what circumstances can a bank draft be advantageously used? Why is it necessary sometimes for a bank to charge exchange on a bank draft? Under what circumstances will a bank grant a bank draft below par?

What is a certificate of deposit? What conditions apply when funds are deposited under a certificate of deposit? Are such certificates transferable? What is the advantage of depositing funds under a certificate of deposit?

COMMERCIAL BANK COLLECTIONS AND SETTLEMENTS

What two organized means have been provided by commercial banks to effect collection and settlement of credit instruments? What is a clearing house? What is the general scheme of a clearing house organization? What are the advantages of the clearing house?

What is the correspondent bank system? How does this make possible the settlement of checks and other claims over wide areas with a minimum of delay? How would a check drawn on a bank in Boston and sent to a payee in Sitka, Alaska, be settled and paid?

Why are collection charges sometimes necessary? What is the approximate charge made by banks for collection of checks, drafts, and other instruments? Why are such charges not always imposed?

COMMERCIAL BANK LOANS AND DISCOUNTS

What two general types of loans may be made by the commercial bank? For what duration are such loans generally made? Under what conditions may a customer of a bank borrow from the funds of the bank? What limits the amount that he may borrow? What security must he give to the bank? What is accommodation paper? Under what conditions may a person who is not a customer of the bank borrow on accommodation of the bank? What security protects the bank from non-fulfillment of the promise to pay back the amount? Generally speaking, to whom is a note of accommodation made payable and how is it turned over to the bank?

What is a collateral loan? What three special conditions are found in the supplementary contract attaching to a collateral note governing the security of the loan?

What is meant by discounting "commercial paper"? Why is such discounting important in a community that depends upon credit as a basis of exchange? What remuneration is obtained by the bank for this service?

SAVINGS BANKS

What is a savings bank? What is a postal savings bank? A mutual savings bank? A joint stock savings bank? How do the three differ in management and control? When and why

were savings banks first established? What is the approximate amount of savings in the United States at the present time? Why do savings banks afford a barrier against pauperism?

When were postal savings banks first authorized in the United States? Why does the Post Office Department form a convenient channel for conducting a savings bank business? What steps must be taken to deposit in a postal savings bank? What is the minimum amount that may be deposited? What is the maximum amount? What provision is made for deposits above the maximum amount? What interest is allowed on postal savings deposits? If such deposits are invested in United States bonds, how much interest is received on the bonds?

What difference is there in the organization and administration of mutual and joint stock savings banks? What difference is there in the purpose of each organization? How is this purpose reflected at times in the nature of the investment of the funds? What are the functions of the receiving teller, the paying teller, the cashier, and the president of such institutions? What steps must be taken in opening a savings bank account? What information must be given to the bank? How does the opening of a savings bank account differ from the opening of a commercial bank account? Why is a savings bank not to be expected to receive credit instruments on deposit, or to permit the use of checks on account? Why is it essential in a savings bank business that funds shall not be withdrawn without notice? What steps must be taken in withdrawing money from a savings bank? What steps must be taken to withdraw money if the depositor is at a distance?

How does a savings bank dispose of the funds turned over to it? What kind of loans may a savings bank make? What limitations upon savings bank loans and investments are made by your state through its legislation? What security must be given by a private individual in borrowing from a savings bank? For what length of time are such loans made? How does a savings bank make its profit? What difference is there in the

distribution of profits by trustee and joint stock savings banks? To whom, and in what form, does the surplus go?

COÖPERATIVE BANKS AND BUILDING AND LOAN ASSOCIATIONS

What is a building and loan association? Out of what need did it grow? How does its service differ from that of a savings bank? Why is its service especially important to the wage earner?

How are the privileges of a building and loan association to be obtained? What conditions control membership? What is a share of stock? What three values does a share of building and loan stock show? What is meant by its "par value"? By its "paid-in value"? By its "maturity value"? What is meant by a "series"? As a rule, how often is a series issued?

What is the organization of a building and loan association? What is the function of the various officers? What are the advantages of belonging to a good building and loan association? Why is it possible for such an association to earn a higher rate of return on savings than the ordinary type of savings bank earns? How does a building and loan association invest its funds? Under what conditions may a member borrow from the association? When there are several applicants for loans, what are some of the methods followed in the United States for deciding which member is to have the benefit of the loan? What security must be given for the payment of loans? If a member borrows on the security of his shareholdings, approximately what proportion in funds may he obtain? If he borrows on a security of real property, for what purpose may the funds be expended? How may membership in a building and loan association be discontinued? What disadvantage to the member is there in discontinuing his membership before the maturity of the shares?

What is done in a building and loan association when the series matures? How long does it take, on the average, for a

series to mature? How is settlement made with a member at the maturing of the series in which he holds shares?

PRIVATE BANKS

What field of banking is to-day largely in the hands of private banks? What important function is performed by those private banks which are engaged chiefly in marketing stocks and bonds? What is the function of those engaged chiefly in foreign exchange? In general, to what extent are private banks of importance in the personal affairs of an individual?

What is a letter of credit? How does it insure to the holder funds of the proper kind in foreign communities? What steps must be taken to secure a letter of credit? What charge is made for one? What becomes of the balance of a letter of credit if the full amount of it is not spent? What is an international or traveler's check? How does it differ in character from a letter of credit? Why does a traveler's check have some advantages over a letter of credit? Some disadvantages?

Name some other important agencies which make a point of providing means for persons traveling in foreign communities.

INSURANCE PRINCIPLES

What is insurance? What condition of affairs makes insurance necessary? How does insurance prevent the individual from suffering an overwhelming loss? How is this object accomplished? What is an insurance risk? How can a group assume such a risk with advantage? Why is insurance risk carried by a large group less costly than when carried by a small group? What should be the size of the insurance group?

What is the scientific basis of insurance? How is this calculated? What is a premium? What is an insurance policy? What is assessment insurance? What is said to be, under given conditions, an advantage in assessment insurance? What is generally its great disadvantage? What is level premium

insurance? How is it possible to calculate level premium insurance? What are some of the important advantages of level premium insurance? Under what conditions does the application of level premium insurance lead to more or less costly insurance?

How do the stock company, the mutual company, and the straight mutual association differ in organization? What was the original type of insurance organization? What was the forerunner of the Lloyd System of the present day? What is the relationship between the insured and the insurer under the organization of a stock company? Under a straight mutual association? How did the mutual company develop? What was the effect of competition between the stock companies and the mutual companies? How do the stock companies and the mutual companies differ to-day? What advantages have accrued to the insured as a result of competition between the stock companies and the mutual companies? Along what lines have straight mutual associations continued to flourish?

LIFE AND ACCIDENT INSURANCE

Into what two general fields may life insurance be divided? Distinguish between ordinary life and industrial insurance. In general, to what social groups is industrial insurance of particular importance? What controls the amount of the policy in the case of industrial insurance? In the case of standard insurance? What is a mortality table? About what is the estimated mortality rate in a group of people of the age of eighteen? Of the age of thirty? Of the age of forty? Of the age of fifty? In calculating level premiums, to what age is the general duration of human life assumed to extend? What effect will the increase in the length of human life, due to improved health conditions, have upon the mortality risk? How will this affect the real cost of insurance? How do improved health conditions make life insurance more profitable?

What preliminary steps are necessary for taking out life insurance? Why is a preliminary examination by a disinterested physician a good thing? When active application is made to an insurance company, what are some of the important aspects of life on which the company must be satisfied? What is the effect of untruthfulness or failure to answer correctly information asked by the company?

What is a whole-life policy? What is term insurance? What is endowment insurance? What difference is there between the ordinary whole-life policy and the limited-payment life policy? To what circumstances of human life is each type of life insurance best suited? What are desirable features of a life insurance contract? What is meant by "freedom from restrictions"? By "non-forfeiture privileges"? By "liberal convertibility privileges"?

What is an annuity? How is it related to the ordinary forms of insurance? Under what circumstances would the taking out of an annuity be advisable? What is the approximate cost of an annuity that would produce \$600 a year at the age of 50? What financial advantage do annuities generally have over funds put into general savings institutions?

What is accident insurance? What strict principle limits such policies? In accident, as well as in every other form of insurance, why is it highly important to be thoroughly familiar with the policy or the contract between the insured and the insurer?

FIRE INSURANCE

What is the problem of fire insurance? Why is the period of risk in fire insurance being more and more limited to one year? Why is perpetual insurance hazardous from the standpoint of the company? Approximately, what is the fire loss in the United States each year? What are some of the most important causes of this fire loss? How does it compare with losses in European countries?

What is the difference between the open policy and the valued policy? Why is the valued policy opposed to the interests of both the insured and the insurer? Why is the open policy preferable from the standpoint of community welfare? What are some of the principles that govern the right to fire insurance? What is an insurable interest? Why is duplicate insurance opposed by the fire insurance companies? Why is fire insurance very specific in the ground that it covers? Why is it null and void in the face of fires caused by political or military disorders? What are the important circumstances that render a fire insurance policy null and void? How is a dispute between an insurance company and the insured over the circumstances of destruction and the amount of destruction generally settled? How may fire insurance be discontinued by both parties to the policy?

GENERAL PRINCIPLES OF PROPERTY

What is the common meaning of the term "property"? What is the legal meaning? In a careful discussion of property, why is it important to keep in mind the legal meaning? What is the difference between real and personal property? What is an estate? What is the difference between the real estate and the personal estate of a person? When is a person a freeholder and when a leaseholder? What is meant by "title to property"? Why is the question of title to property an important one?

By what processes may the use of property be transferred? Which of the processes are most common to the everyday circumstances of an individual? How does an absolute right differ from a special right? In transfer of property, with what phase of law is familiarity essential?

What is a contract? What are the essentials of a contract? What persons are incompetent to contract? What is the effect of a lack of mutual consent to the agreement, or the presence of misrepresentation, mistake, fraud, undue influence, or duress?

What is the meaning of "consideration"? What kind of agreements are unlawful as contracts?

In what three forms may contracts be made? Which of the three is the best? While ordinarily all three forms may be employed, under what five specific kinds of agreements must the contract be in writing? To what extent is an implied contract binding?

LEASES

What is a lease? Who is the lessee? Who is the lessor? In accordance with common law, in what condition must property be when returned to the landlord by the leaseholder? What are the vital provisions of a lease? Why is it important that a lease shall contain these provisions? What are the terms of the lease? Under what conditions may the provisions of a lease be canceled before the expiration of the leasehold period?

BILLS OF SALE AND DEEDS

What steps must be taken in the sale of real property? What is a bill of sale? Why is it necessary to enter into a bill of sale? What is the deed? What is the difference between a general warranty deed and a quitclaim deed? Before delivery of the deed, why should the title be searched? What institutions make a specialty of searching titles? What claims constitute an encumbrance against real property? How may such encumbrances be adjusted? Why is it necessary to deliver the deed in exchange of real property before a notary or other officer of record?

Why is it well to cover the title by insurance? What institutions issue title insurance? Why is it necessary to record a deed in the office of the register and recorder of the county in which the transfer is made? If a deed is not recorded and a second transfer is made by the ordinary holder and the second deed is recorded, which of the two deeds is likely to confer title?

MORTGAGES

What is a mortgage? Who is the mortgagee? Who is the mortgagor? According to common law, to what extent is a mortgage a conditional transfer of property? What is the difference between a first and a second mortgage? About what proportion of residential property may be placed under first mortgage? What is the rate of interest common under first mortgage? Under second mortgage? What is a foreclosure? Why is the mortgage, modified by foreclosure, a more justifiable instrument of security? What steps must be taken in foreclosure when interest or principal is not paid when due? Why is it essential for the mortgagor to provide a policy of fire insurance? What is the length of term general to mortgages?

DISTRIBUTION OF PROPERTY ESTATES

In the case of property of decedents, what are the two methods of distribution? What is meant when it is said "the owner of property dies intestate"? What steps must be taken in the case of property that has not been distributed by will? What is an administrator? What is a will? What is an executor? What are the duties of an executor? What steps must be taken by both the administrator and the executor in distribution of real and personal estates? Why does the trust company play an important part in this field? Why is this institution especially qualified to act as executor or administrator?

TAXATION

What is the difference between direct and indirect taxation? To what extent does the Federal government limit itself in the utilization of these two methods of taxation? What power is given the Federal government under the Sixteenth Amendment to the Constitution? How do the states and local governments defray their expenses? What specific forms of taxes are collected in your state? What method of assessing

property prevails in your community? What are some of the characteristics of a just tax?

BOND AND STOCK INVESTMENTS

What is the difference between investment and speculation? What is the principle that should govern investment? What principle governs speculation? Why is speculation, as a general thing, a serious pursuit for the person of ordinary income?

What is a bond? What difference is there between a bond and a promissory note? Into what general classes may bond issues be divided? What is the difference between a coupon bond and a registered bond? What advantages are attached to the possession of a coupon bond? From the standpoint of the bond market, what five kinds of bonds are there? From the standpoint of suitability for investment, in what order may the five be listed? From the standpoint of the security that safeguards the holder, into what three groups may bonds be divided? What is the security of a government bond? Why is a government bond in the United States regarded to-day as one of the most secure mediums of investment? What is a Liberty bond? What is a mortgage bond? What steps are taken when interest on a mortgage bond is not paid? When the principal is due and not paid? What is the nature of a debenture bond? Under what conditions are debentures desirable?

From the standpoint of mortgage security, what are some of the important classes of bonds? What is the difference between first and second mortgage bonds? What is a general or blanket mortgage bond as contrasted with a divisional bond? What is a consolidated bond? An equipment bond? A refunding bond? A convertible bond? What difference does it make whether a bond is repayable in gold or in legal tender? Why is a gold bond preferable from the standpoint of long-time investment? What will cause any bond to fluctuate somewhat above or below its face value?

What is a share of stock? In what relation to the business is a stockholder? How does the position of a stockholder differ from that of a bondholder? What is a dividend? What different types of stocks are issued by a corporation? What difference is there in the rights of a common stockholder and a first or second preferred stockholder? What gives the general market value to a share of common stock? How is this general market value influenced by artificial manipulation? What is meant by a "bull movement" in a stock market? By a "bear movement"? By a "straddle"? Is common stock, generally speaking, a good medium for investment or for speculation, and why? Why are stocks and bonds generally called "securities"? In the case of railroad securities, why are the issues of stocks and bonds of railroads located in certain districts of United States regarded as "gilt edge"? What, in a general way, insures the future reliability of these stocks and bonds? What general geographical conditions in the United States make a great difference in the financial reliability of stocks and bonds? Why, in general, do the issues of stocks and bonds of public utility corporations rank next to those of railroads? What situation tends to maintain the stability of public utility issues? Why are the issues of industrials as a rule uncertain in value? Why are mining stocks and bonds often unsafe?

BOND AND STOCK MARKET

What is a stock exchange? What is a stock and bond broker? What important financial service is performed by a stock exchange? What is the general organization of a stock exchange? How is business conducted on the floor of a stock exchange? What is the present cost of a membership in the New York Stock Exchange? What are some of the causes of fluctuation in the cost of a membership in a stock exchange? How are stocks and bonds purchased by private speculators and investors? What charge is usually made by brokers for carry-

ing out orders on the floor of a stock exchange? What is meant by dealing in stocks and bonds on margin? What is the primary aim in conducting transactions in stocks and bonds in this way? What is the work of an arbitrage broker? Explain why stocks and bonds have different market values in different communities. What is meant by a curb market? In what respects does the curb market differ from the exchange market? Are stocks and bonds not listed on an exchange necessarily unreliable or unsafe? What is meant by underwriting? By an underwriting syndicate? How do private banks expect to make a profit by the process of underwriting?

MORTGAGES AND REAL ESTATE INVESTMENTS

From the point of view of an investor, how does a mortgage differ from a bond? What advantages and what disadvantages does the former show in comparison with the latter? Why is a mortgage on land more reliable than one on buildings and improved real estate? In the settlement of mortgage claims, what is the difference between the rights of a holder of a first and the holder of a second mortgage? Under what conditions in a community or a section of a city is a second mortgage reasonably safe as an investment? In purchasing real estate as an investment, what two specific clauses must be considered? Why is the purchase of unimproved real estate more or less speculative in character? What general factors underlie an increase in the market value of real estate? What is meant by unearned increment? Why is dealing in real estate as an investment usually troublesome to a small investor? To what extent is there an open and continuous market in the field of mortgage and real estate investments? Why is it difficult to maintain a real estate exchange on the plan of a stock exchange? What is the work of a real estate broker? In general, why is a trust company a good agency to consult in investing in mortgages and in real estate?

REFERENCE BOOKS

As the subject matter of this manual covers so broad a field, it has not been possible to present any portion of it as fully as its importance warrants. If the pupils have time and access to a fairly large library, much additional material will be found in the books here named as well as in other books, periodicals, and encyclopedias. Elementary books on business law will be of special value. Statistical information that may be needed can be obtained from a current yearbook or from the reports issued by state and Federal authorities. Classroom work can be made more real and interesting by placing in the hands of each pupil copies of the instruments and documents involved in the discussions. These can generally be obtained from banking and insurance institutions or from printing and lithographing establishments.

The following books are suggested for supplementary class use, those marked with a star being particularly suitable and useful:

Annals, American Academy of Political and Social Science:

* Bonds as Investment Securities.

* Insurance.

BABSON, R. W.: Bonds and Stocks; The Elements of Successful Investment.

BAGEHOT, WALTER: Lombard Street.

* BARRETT, A. R.: Modern Banking Methods.

BOLLES, A. S.: Practical Banking.

BOND, F. D.: Stock Prices; Factors in Their Rise and Fall.

BURDICK, F. M.: Essentials of Business Law.

* CANNON, JAMES G.: Clearing Houses.

* CHAMBERLAIN, LAWRENCE: Principles of Bond Investment.
Work of the Bond House.

CLAY, PAUL: Sound Investing.

* CLEVELAND, F. A.: Funds and Their Uses.

* COFFIN, G. M.: A B C of Banks and Banking.

* CONANT, C. A.: History of Modern Banks of Issue.
Principles of Money and Banking.

CONWAY, THOS., Jr., and PATTERSON, E. M.: Operation of the New
Bank Act.

COOPER, FRANCIS: Financing an Enterprise.

DUNBAR, C. F.: Chapters on the Theory and History of Banking.

ELIASON, A. O.: Rise of Commercial Banking Institutions in the
United States.

ELY, R. T., and WICKER, G. R.: Elementary Principles of Economics.

ESCHER, FRANKLIN: Practical Investing.

FISHER, IRVING, and others: How to Invest When Prices are Rising.

* FISKE, A. K.: The Modern Bank.

FOWLER, N. C.: How to Save Money.

* GANO, D. C.: Commercial Law.

GEPHART, W. F.: Principles of Insurance.

* HAMILTON, J. H.: Savings and Savings Institutions.

HARRIS, R. S.: Practical Banking; with a Survey of the Federal
Reserve Act.

HENDRICK, B. J.: Story of Life Insurance.

* HOLDSWORTH, J. T.: Money and Banking.

* HUEBNER, SOLOMON: Life Insurance.

* Property Insurance.

JACK, A. F.: Introduction to the History of Life Assurance.

* KIRKBRIDE, F. B., and STERRETT, J. E.: The Modern Trust Com-
pany.

KNIFFIN, W. H., Jr.: Practical Work of a Bank.

* MARCOSSON, I. F.: How to Invest Your Savings.

* MEAD, E. S.: The Careful Investor.

MOODY, JOHN: Analyses of Investments, 1913-17; Manual, Com-
plete List of Securities, 1917.

The Art of Wall Street Investing.

* NICHOLS, F. G., and ROGERS, R. E. : A Short Course in Commercial Law.

POOR AND SONS : Manual of Industrials.

PRATT, A. S., AND SONS : Digest of Laws Relating to National Banks.

* PRATT, S. S. : Work of Wall Street.

ROLLINS, MONTGOMERY : Money and Investments.

* ROSENTHAL, H. S. : Building, Loan, and Savings Associations.

SCOTT, W. A. : Banking.

Money and Banking.

SULLIVAN, JOHN : American Business Law.

* WHITE, HORACE : Money and Banking.

ZARTMAN, L. W. : Fire Insurance.

Life Insurance.

Property Insurance.

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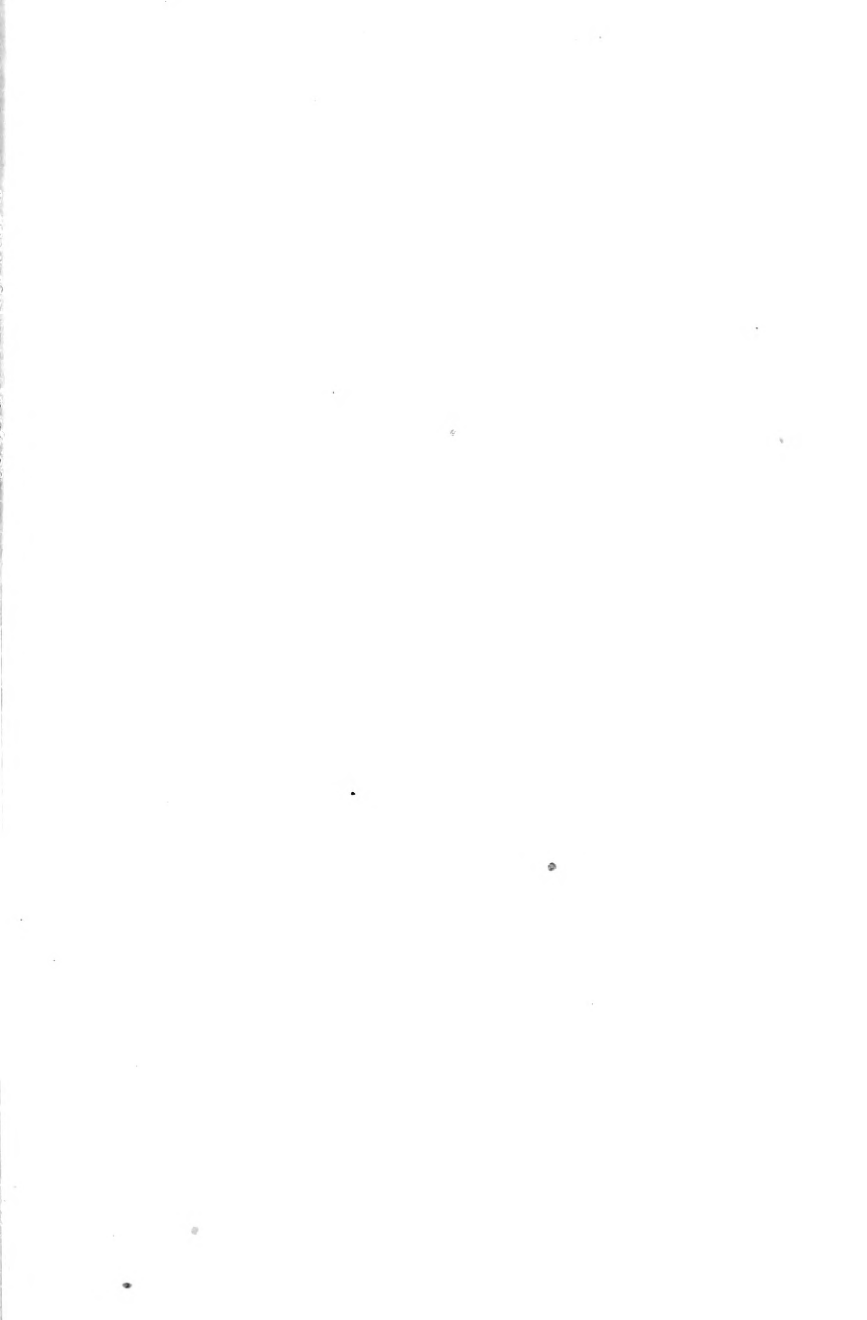
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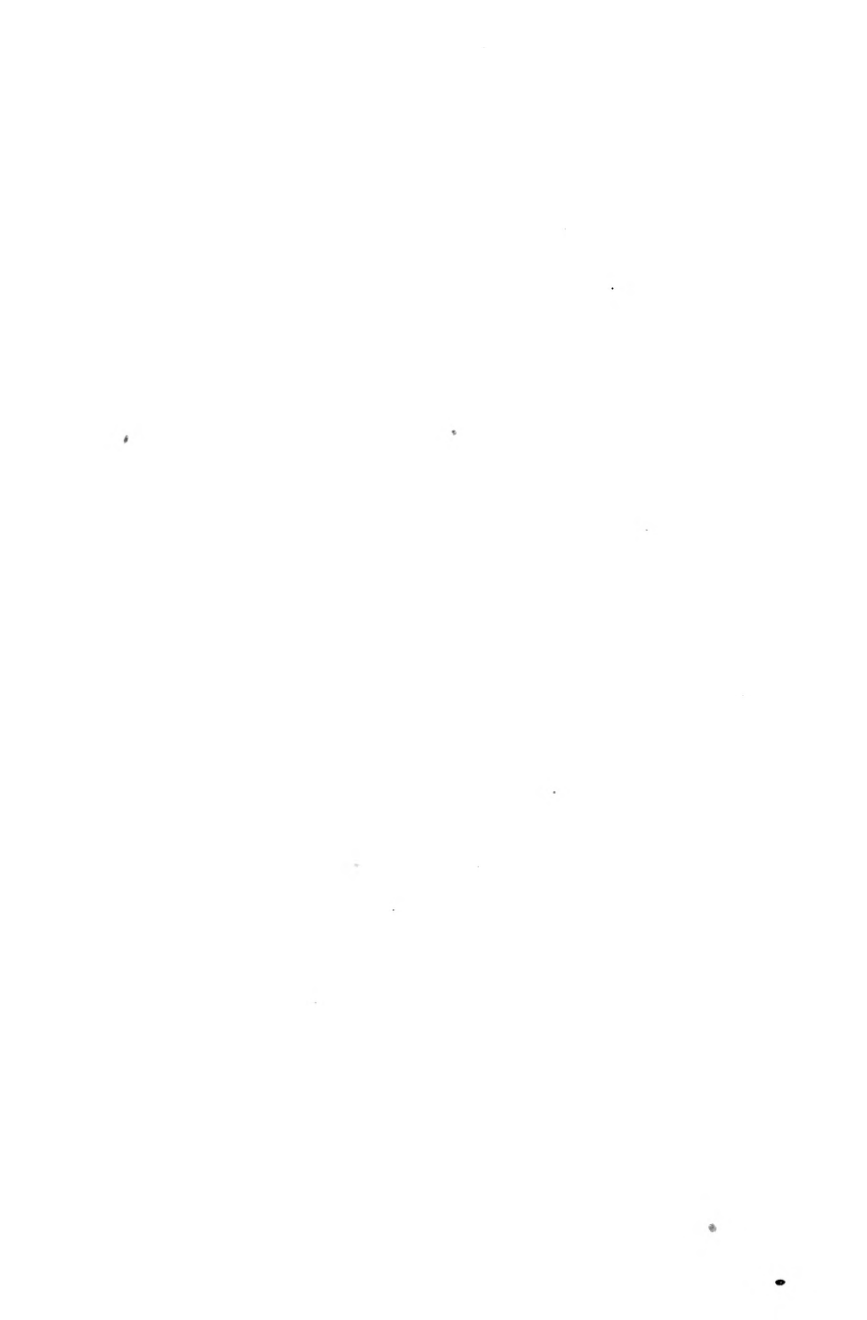
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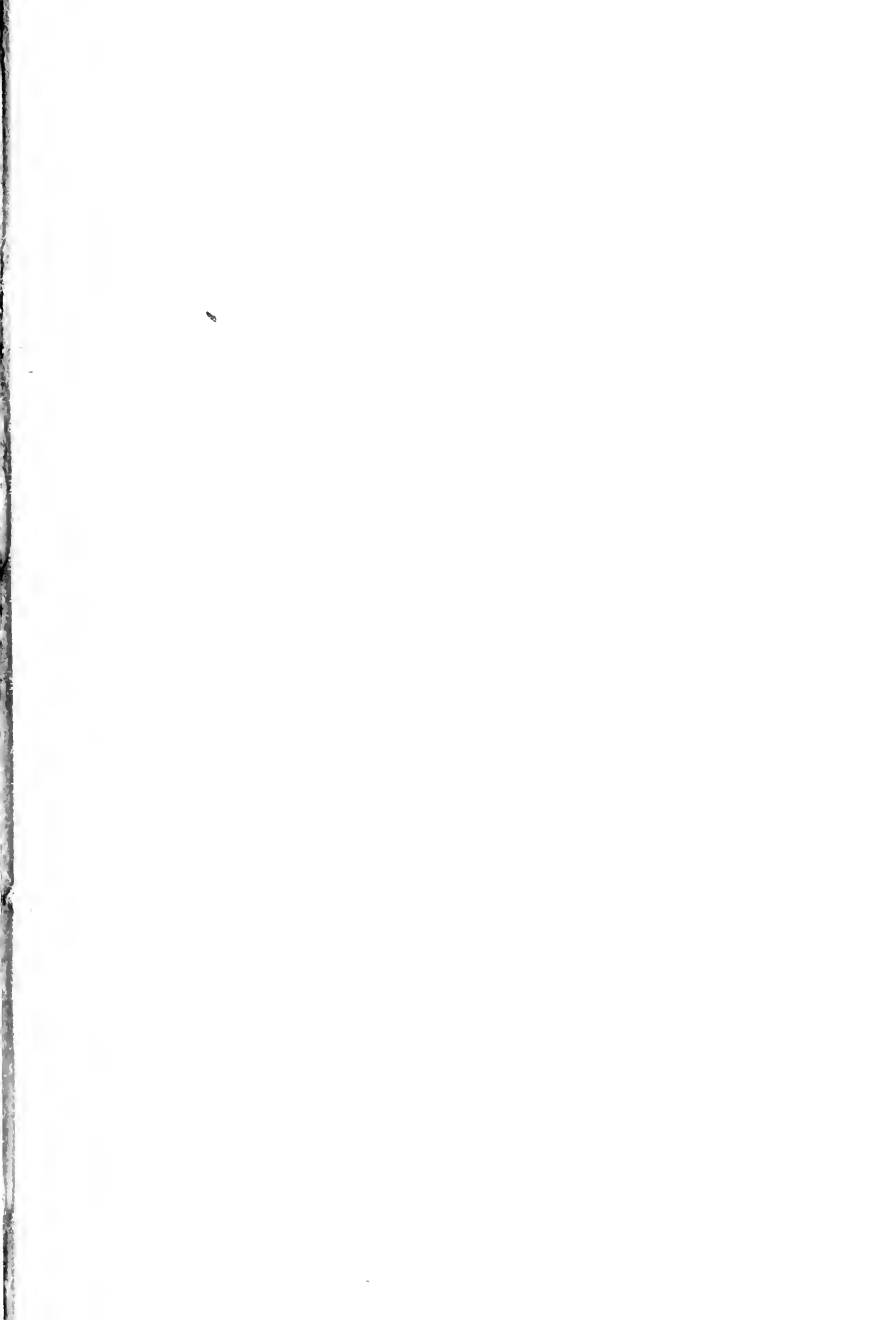
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